

DRIVERS OF ECONOMIC GROWTH:
Unleashing the Potential of the Private Sector

PAKISTAN DEVELOPMENT FORUM

10-11 May 2006, Islamabad

Government of Pakistan
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Economic Affairs Division (EAD)
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Foreword

It is an immense pleasure for me to present this compendium of the proceedings of the 2006 Pakistan Development Forum, held from 10-11 May in Islamabad.

The PDF is a unique opportunity for Government and Pakistan's development partners to share information and exchange ideas. The title of the 2006 PDF was 'Drivers of Economic Growth: Unleashing the Potential of the Private Sector'. Set against the context of the considerable progress made by Pakistan in terms of macro-economic stability and economic growth over the past few years, the focus of this year's PDF was on how to ensure sustained growth and, specifically, what role the private sector could play in this.

Speakers and panelists were invited from Government, the private sector, academia and civil society to address issues related to the specified conference theme (the private sector, SMEs, infrastructure) as well as recurrent PDF themes of reform (devolution, second-generation reforms) and development (MDGs and human development, social protection, environmental sustainability). Session VIII on improving aid effectiveness was of direct relevance to Pakistan's development partners.

In order to promote effective dialogue, considerable effort was put into preparing for the Forum: both organizational arrangements and program development. For the first time a dedicated PDF Secretariat was set up within the Donor Coordination Cell. Supporting materials produced for the 2006 PDF included: annotated agenda, Delegate Brief, Background Briefs for each session, and a dedicated PDF website. The hard work put in before the PDF contributed to making it a great success.

This Report gives a session-wise summary of the Conference Proceedings. In preparing the report, a deliberate effort has been made to avoid a 'reporting format' and to convey the main points of each session in a 'reader-friendly' manner. Full presentations and statements are given in the Annexes, alongside the agenda and chair/speaker profiles.

The Background Briefs prepared for the 2006 PDF outline the wider thematic context in more detail. Each Brief describes the issue, initiatives undertaken by the Government and others, progress on these, and highlights key priority areas. These Briefs will have utility beyond the 2006 PDF. For this reason, they have been compiled and printed as a separate volume. Taken together, the two volumes provide a lasting record of the 2006 PDF, and allow those unable to attend to share in the learning process.

Finally, I would like to express appreciation for the support provided by our development partners: the World Bank who co-sponsored the PDF; DFID for enabling international experts to participate; and CIDA for providing technical support to help prepare for the PDF. I would also like to commend the EAD personnel for their excellent organization and management of the PDF.

Dr Salman Shah

Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics

Acknowledgements

The authors would like to express particular gratitude to Mr Khalid Saeed, Secretary EAD, for his invaluable comments and advice, and to Ms Hina Rabbani Khar, Minister of State for Economic Affairs, for her encouragement and support.

Acronyms

ADB	Asian Development Bank
BOO	Build Own Operate
BOOT	Build Own Operate and Transfer
CBR	Central Board of Revenue
CCB	Citizen Community Board
CIDA	Canadian Department for International Assistance
CSF	Competitiveness Support Fund
CSO	Civil Society Organisations
DFID	UK Department for International Development
DTCE	Devolution Trust for Community Empowerment
EAD	Economic Affairs Division
EIA	Environmental Impact Assessment
EPA	Environmental Protection Agency
ERRA	Earthquake Rehabilitation and Reconstruction Authority
FATA	Federally Administered Tribal Areas
FESCO	Faisalabad Electrical Supply Company
HPSC	High Powered Steering Committee
IPP	Independent Power Providers
ICB	International Competitive Bidding
MAF	Million Acre Feet
MDGs	Millennium Development Goals
MDGR	Millennium Development Goals Report
MEA	Multilateral Environmental Agreement
MoE	Ministry of Environment
MTDF	Medium-Term Development Framework
MTOE	Million Tones Oil Equivalent
NCGR	National Commission for Government Reforms
NCHD	National Commission for Human Development
NEPRA	National Energy Policy Regulation Authority
NEQS	National Environmental Quality Standards
NRB	National Reconstruction Bureau
ODA	Official Development Assistance
OGRA	Oil and Gas Regulatory Authority
PCP	Pakistan Centre for Philanthropy
PDF	Pakistan Development Forum
PFC	Provincial Finance Commission
PPIB	Private Power and Infrastructure Board
PRSP	Poverty Reduction Strategy Paper
PSLM	Pakistan Social and Living Standards Measurement
SECP	Chairperson Securities and Exchange Commission of Pakistan
SME	Small and Medium Enterprises
SWAps	Sector Wide Approaches
UIPT	Urban Immovable Property Tax
UNDP	United Nations Development Program
WAPDA	Water and Power Development Authority

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Executive Summary

The title of the 2006 Pakistan Development Forum, held from 10-11 May in the Convention Centre, Islamabad, was **‘Drivers of Economic Growth: Unleashing the Potential of the Private Sector’**. The PDF sought to highlight the Government’s pro-investment, pro-growth and pro-poor policies. It comprised an inaugural session, followed by nine ‘sector-specific’ sessions devoted to: the private sector, the SME sector, MDGs and human development, environmental sustainability, social protection, infrastructure, devolution, second-generation reforms and aid effectiveness. The concluding session featured statements by development partners.

The Chief Guest in the **Inaugural Session** was the Prime Minister of Pakistan, Mr Shaukat Aziz. In his address, the Prime Minister thanked Pakistan’s development partners for their support after the 8 October earthquake. He reviewed progress made by Pakistan in terms of economic growth and development over the past seven years. Mr Aziz said the Government recognized the role of the private sector in promoting growth and that the Government’s role was to create an enabling environment for this. He urged the private sector to take advantage of the opportunities being offered.

Dr Salman Shah, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics, stressed that sustained growth was dependent on meeting poverty reduction and human development targets. He explained the Government’s strategy to achieve this - *water and energy security, human capital development, infrastructure development and second-generation reforms*, adding that the Government recognized the private sector as one of the main engines of economic growth.

Dr Ahmed Mohammed Ali, President Islamic Development Bank, described the support being provided by IDB for earthquake reconstruction, and invited Pakistan to make use of its various private sector funding facilities. He identified ensuring economic growth benefits ordinary people, and promoting savings and productive investments as crucial for future development. Mr Praful C. Patel, Vice President South Asia of the World Bank, lauded the Government’s earthquake response, and Pakistan’s strong economic growth. His list of key action areas for future growth included early policies to prevent the economy ‘overheating’, ensuring everyone benefits from growth, and second-generation reforms and infrastructure development. Mr Juan Miranda DG Central and West Asia Department, Asian Development Bank, identified public-private partnerships as the solution to Pakistan’s problem of needing massive investment in infrastructure but not having sufficient public sector resources to fund it. He described the ways in which ADB could support these, e.g. providing guarantees for private sector-led development projects.

Session II ‘Improving Pakistan’s Competitiveness through Dynamism of the Private Sector’ was chaired by Dr Salman Shah. The keynote speaker, Dr Michael Enright, explained the concept and importance of competitiveness, and highlighted some of the challenges faced in promoting this and the role of the private sector. He stressed that competitiveness is systemic – from national through to firm level – and has to be approached across all levels in an integrated manner. Both the public and private sectors are critical to competitiveness.

The first panelist, Mr Rashid Faruqi, Adviser Ministry of Food and Agriculture, stressed the role of the agriculture sector in economic growth and recommended steps to promote agricultural productivity and competitiveness such as continued sound macro-economic policies, technology and infrastructure development, improved trade policy and quality controls. Mr Tariq Saigol, Chairman Koh-i-Noor Maple Group, gave an overview of the state of Pakistan's economy, noting that there had been significant achievements over the past few years (e.g. macro-economic stability, increased public sector spending, strengthening of the CBR), but urging steps in a number of priority areas (political stability, the trade gap, infrastructure and energy) to ensure sustained growth.

Mr Saquib Sherazi, CEO Atlas Honda Pvt Ltd, gave a private sector perspective on the investment climate in Pakistan. He too noted achievements, but called for sustained policies and a balanced growth strategy. The final panelist, Mr Tariq Rangoonwala, Chairman ICC, urged the Government to promote public-private partnerships and listed steps that could facilitate private sector investment (e.g. liberalization, efficient water management, supportive infrastructure), thereby generating growth and development.

Session III 'Unleashing Potential of the SME Sector with a Focus on Productivity Improvement' examined policies and progress towards facilitating SMEs. Mr Awais Mazhar Hussain, Chief Executive Angoor Textile Ltd, stressed the need for cluster development, and capacity building to improve productivity. Mr Shahab Khawaja, Chairman SMEDA, explained the potential of SMEs to contribute to growth and poverty reduction, and assessed the factors hampering SME growth, e.g. economic policy uncertainty, difficulty in accessing financing, corruption. He noted that SME growth was far less than that of large-scale industries and called for an SME support program.

Mr Tawfiq Hussain, Deputy Governor State Bank of Pakistan, focused on SME financing, noting that SMEs account for a significant percentage of loans in Pakistan, but urged awareness-raising and capacity building to further enhance this. Dr Warren Weinstein, Chief of Party Pakistan Initiative for Strategic Development and Competitiveness, stressed that companies have to be big and have a skilled workforce, if they are to be competitive. He urged the Government to take the lead in promoting SME technology and facilitating the sector.

Session IV 'MDGs and Human Development' focused on Pakistan's progress, priorities and challenges in achieving the MDGs and promoting poverty reduction. Mr Jan VandeMoortele, UNDP Resident Representative, explained the background and purpose of the MDGs, including target selection and indicators. He stressed that, while the contents of the MDGs are universally applicable, their quantitative targets are not – these should be country-specific. Mr VandeMoortele said there had been global progress in the 1990s, and maintained that targets were achievable. For Pakistan, he said it might be necessary to modify targets and he outlined steps for an MDG-based national strategy.

Dr Nasim Ashraf, Chairperson National Commission for Human Development, gave an overall assessment of Pakistan's progress on the MDGs, focusing on MDG targets for health and education. He noted that while there had been achievements (e.g. increased school enrollment, women's empowerment, reduced under-five mortality rate), if current

trends continued Pakistan would not meet the MDGs. Dr Ashraf described the challenges Pakistan faced in achieving the MDGs (e.g. lack of access to health care facilities), and Government initiatives to address these, including NCHD which mobilizes public-private partnerships to promote service delivery. But he stressed the need for support from the international community, and called for MDG-based global partnerships.

Dr Pervez Tahir, Chief Economist Planning and Development Division, described monitoring arrangements for the MDGs, and noted that capacity-building was required. Ms Shahnaz Wazir Ali, Executive Director Pakistan Centre for Philanthropy, highlighted the role and potential of civil society organizations to help achieve the MDGs, and called for Government measures to promote CSO participation.

Session V ‘Environmental Sustainability’ examined the challenges in promoting economic growth whilst ensuring environmental protection. Keynote speaker Syed Babar Ali, Vice President Emeritus WWF International, spoke on the necessity of bringing about an attitudinal change *vis-à-vis* the environment, and called for long-term commitment and strategies. Dr Tariq Banuri, Director Stockholm Environment Institute-Asia, called for ‘environmental modernization’ with defined targets, clear timelines, measurable indicators, and sufficient resource allocations.

Dr Pervez Hassan, of Hassan & Hassan Associates, highlighted the gap between environmental legislation and enforcement in Pakistan, and commended the positive role played by the judiciary and judicial commissions in issues of sustainable development. Mr Asif Shujah, Director General Pakistan Environmental Protection Agency, gave an overview of environmental conditions in Pakistan, and detailed initiatives being taken by the Government for environmental sustainability, e.g. strengthening linkages between economic and environmental sectors, environmental protection through legislation and advocacy; raising environmental awareness.

Session V(a) ‘Social Protection’ looked at current social protection programs in Pakistan and strategies to make these more effective. Keynote speaker Kalanidi Subbarao, World Bank social protection expert, explained the importance of social protection to reducing inequity and poverty, and outlined approaches to this. He identified conditional cash transfers as the most effective safety net. Dr A. R. Kemal, former Director of PIDE, described the role of micro-finance in bringing the poor out of poverty, and preventing the vulnerable from falling into it. He assessed programs for micro-credit provision in Pakistan.

Dr Faisal Bari, Director of the Mahbub-ul-Haq Centre, gave a critique of social protection programs in Pakistan, noting key challenges: lack of resources, limited reach, poor targeting and coordination and the failure to cover the informal labour sector. He too advocated conditional cash transfers alongside public works programs. Session chair, Minister Zubaida Jalal called for better data as well as institutional strengthening of the Ministry for Social Welfare and Special Education.

Session VI ‘Infrastructure – Energy, Water, National Trade Corridor’ examined measures to meet the country’s growing infrastructure needs. Session chair, Minister for Water and Power Mr Liaquat Ali Jatoi announced recent initiatives by the Government to increase energy production and facilitate private sector investment. Mr Ahmed Waqar,

Secretary Ministry of Petroleum and Natural Resources, gave an overview of the energy sector and outlined the Government's strategy to ensure energy security. Key in this are measures to increase gas imports, hydro-power generation, and private sector investment. Mr Ashfaq Mahmood, Secretary Ministry of Water and Power, described measures to improve electricity transmission and progress on restructuring of the power sector, noting the need for private sector funding. He assessed the country's water situation and explained that water security required curbing water losses and improving storage facilities and other infrastructure. Dr Asad Shah, Member Planning Commission, said economic growth required improved transport and communications, including the National Trade Corridor.

Session VI(a) 'Devolution: Progress, Future Priorities, and Challenges' looked at the overall progress of devolution reform implementation, and some specific aspects such as fiscal decentralization and community participation. In his overview assessment Dr Ali Cheema, Associate Professor LUMS, explained the main issues with devolution as due to incomplete implementation, and criticized vertical programs for undermining devolution. Mr Ashraf Wasti, Private Member Sindh PFC, detailed progress on fiscal decentralization, and identified the challenges ahead, including lack of capacity for financial management and lack of resources.

Yusuf Ayub, District Nazim Haripur, highlighted the achievements of local governments, and stressed that local regulation had not deteriorated since devolution was introduced. Yusuf Khan, CEO DTCE, focused on citizen empowerment via citizen community boards, noting that these had increased in the past three years but conceding that they faced challenges like elite capture, and poor women's participation. NRB Chairman and Session Chair Daniyal Aziz announced that draft plans for provincial restructuring had been circulated, with a view to ensuring local government autonomy whilst giving provincial governments a regulatory role.

Session VII 'Second-Generation Reforms' examined progress on implementation of these. Keynote speaker, Minister of State for Finance Omar Ayub, detailed reforms introduced by the Government (e.g. in the financial sector, capital markets, tax administration, privatization, governance) and the subsequent achievements: economic growth, reductions in poverty and unemployment, reduced debt burden, rising foreign exchange reserves. He stressed that sustained growth requires second-generation reforms and described major initiatives already launched in this regard (e.g. police and judicial reform, civil service reform, banking and financial sector reform, a major overhaul of the CBR) as well as some future reforms (e.g. a new Banking Law, a deposit insurance scheme to protect small depositors, demutualization of stock exchanges).

Dr Shamshad Akhtar, Governor State Bank of Pakistan, described steps for consolidation and merger of financial institutions, and privatization of the banking sector (e.g. Agriculture Bank, SME Bank). She said the SBP's focus on strengthening efficiency and performance of the banking sector had increased, and was yielding results. Future reform priorities include introducing standards and requirements for proper disclosure, promotion of development finance and mainstreaming of agricultural credit. Mr Razi-ur-Rehman, Chairperson Securities and Exchange Commission of Pakistan, gave an overview of the second-generation reforms related to strengthening of capital markets and maintenance of a favourable environment for business growth, and described initiatives being taken by the

SECP, e.g. setting up of the Insurance and Corporate Law Review Commission to suggest changes in the corporate sector. He identified lack of capacity (human capital) as the greatest challenge facing the SECP.

Dr Ishrat Hussain, Chairman National Commission for Government Reforms, detailed the objectives, approach and composition of the new Commission. He explained that it had been set up to tackle the legacy of weaknesses and inefficiencies hampering the public sector, and that its wide-ranging scope extended to all tiers of Government. In order to achieve its objectives the NCGR would review and rationalize the functioning of all departments, working in a consultative, participatory manner. Its recommendations would be forwarded for implementation to a High-Powered Steering Committee, co-chaired by the President of Pakistan and other senior officials.

Session VIII ‘Improving Aid Effectiveness through Implementation of the Paris Declaration’ focused on progress towards implementation of commitments made by Government and donors. Development partners reiterated their commitment to the Paris Declaration and described steps they had taken for implementation, e.g. harmonization steps under the informal Poverty Reduction Group, and identified measures that could further the process, e.g. an institutional set-up within EAD to allow Government-donor policy dialogue, and the big multilateral banks working together to promote alignment.

Session Chair and Minister of State for Economic Affairs, Ms Hina Rabbani Khar, acknowledged that the Government had to take the lead in promoting aid effectiveness, and gave suggestions for how this could best be approached, e.g. identifying end goals and working back from those in small steps. For donors, the Minister urged core competencies to be emphasized and comparative advantage realized; a broad-based institutionalized approach to capacity-building; interventions to be channeled through Government systems; and need-based prioritization of target areas for assistance.

The **Concluding Session** chaired by Dr Salman Shah included statements by many bilateral and multilateral development partners. The World Bank Country Director said Pakistan now faced the ‘problems of success’, key among which was ensuring supply matched demand. He identified financial macro-balance, infrastructure development, power generation as critical to sustained growth. Mr Wall also stressed the need for better quality and provision of basic services. The Government of Canada acknowledged poverty and human development indicators in Pakistan had improved, but urged increased social sector spending, particularly on health and education. The Canadian statement also acknowledged progress in gender equality, but called for stronger leadership from the Government.

The Japanese Government statement summarized the main threads of the 2006 PDF discussions, i.e. promoting growth through increased competitiveness and strengthening of the private sector; ensuring pro-poor growth; improving monitoring capacity; and undertaking second-generation reforms. The statement reiterated Japan’s commitment to ‘help Pakistan help themselves’.

The local Presidency of the European Union made a statement on behalf of E.U Member State welcoming the emphasis on private sector development in PDF – 2006. E.U expressed appreciation to the Government of Pakistan for achieving macro-economic stability over the

past few years and stressed the need for ensuring that the impressive growth and development leads to poverty reduction and the benefits of growth and development are distributed to the entire country. The E.U also encouraged Pakistan to balance economic growth with environmental sustainability specially in the areas of Water Resources Management and Forestry. E.U reiterated its commitment to support the Paris Declaration principles on Aid Effectiveness and urged the Government to develop a road map to progress harmonization and alignment and to enhance mutual accountability as defined in Paris Declaration.

On behalf of Government of Pakistan, Dr. Salman Shah thanked the development partners for their active participation and support in making PDF-2006 an interactive and enriched discourse. He also thanked other delegates from the government, private sector, civil society for their active participation, and to the speakers for providing valuable insight into Pakistan's development issues, challenges and opportunities.

CONFERENCE PROCEEDINGS

Pakistan Development Forum 2006: Introduction

The sixth Pakistan Development Forum was held from 10-11 May, 2006 in the Convention Centre, Islamabad. The title of the 2006 PDF was ‘Drivers of Economic Growth: Unleashing the Potential of the Private Sector’. Unlike previous PDFs, which focused on explaining the reform program initiated by the Government, the central theme of the 2006 PDF was how to ensure sustained economic growth, and what role the private sector could play in this. Over the two days of the Forum, the Government highlighted its pro-growth, pro-investment and pro-poor policies. As well as detailing its achievements, the Government sought to exchange with development partners and representatives from the private sector and civil society, *ideas* to meet the challenges ahead.

The Inaugural Session of the 2006 PDF featured addresses by leading representatives of major development partners, and Chief Guest Prime Minister Shaukat Aziz. It was followed by nine ‘sector-specific’ sessions, dedicated to issues of growth and development: the private sector, the SME sector, MDGs and human development, environmental sustainability, social protection, infrastructure, devolution, second-generation reforms and aid effectiveness.

Each session was chaired by the relevant Government Minister, and generally entailed a keynote address followed by 2-3 panel interventions. Speakers and panelists were leading figures drawn from Government, academia, the private sector and civil society. They were encouraged to avoid power-point presentation formats, in favour of short, focused interventions on specific issues. To avoid duplication and ensure that priority issues were addressed in each session, speakers/panelists were given a prepared list of questions – with the caveat that these were *recommended* topics, and they could talk on others if they wished. Finally, in deference to demands by delegates in previous PDFs, substantial time was allocated in each session for discussion.

The Economic Affairs Division organized the 2006 PDF, with support from development partners (World Bank, DFID, CIDA). For the first time a dedicated PDF Secretariat was established within the EAD’s Donor Coordination Cell to undertake program development for the PDF. A number of supporting materials were produced in the run-up to the PDF, including: delegate briefs, background briefs, participant profiles, and a dedicated PDF website. The aim was to ensure that delegates had full access to information about the themes being discussed in the 2006 PDF, thereby promoting effective participation and dialogue.

A session-wise summary of the conference proceedings is given below. Addresses made in the inaugural session, as well as full presentations/statements made in each of the sector sessions, are given in the Annexes.

Inaugural Session

The Inaugural Session of the 2006 Pakistan Development Forum had addresses by Dr Salman Shah, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics; Dr Ahmed Mohammed Ali, President Islamic Development Bank; Mr Praful C. Patel, Vice President South Asia of the World Bank; and Mr Juan Miranda, DG Central and West Asia Department, Asian Development Bank. The Prime Minister of Pakistan, Mr Shaukat Aziz, was the Chief Guest.

Dr Salman Shah, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics, described Pakistan's achievements in terms of economic progress and related the findings of recent surveys showing that poverty and unemployment are down. But he stressed that challenges remain, notably: price rises, widening trade deficit, high energy prices, earthquake recovery. Dr Shah stressed that sustained growth depended on achievement of poverty reduction and human development targets. He explained the Government's five-pillar strategy to achieve this: water security, energy security, human capital development, infrastructure development, and second-generation reforms.

Dr Shah said the Government recognized the private sector as one of the main engines of economic growth, and the primary source of employment generation. He also highlighted the role public-private partnerships can play in service delivery improvement, and described initiatives being taken by the Government to promote these. Overall, he explained the Government's task was to facilitate the private sector. Dr Shah concluded by reiterating the Government's commitment to macro-economic stability, good governance and improved quality of life. He said the PDF provided an excellent opportunity to share ideas with the country's development partners, and work together to achieve common objectives.

Dr Ahmed Mohammed Ali, President Islamic Development Bank (IDB), described the support being provided by IDB for earthquake rehabilitation and reconstruction, noting that of the IDB member countries Pakistan is the highest beneficiary of financing. He commended the Government of Pakistan for having achieved economic growth, in spite of the October earthquake. Dr Ali also lauded its commitment to involve the private sector in growth, explaining that the IDB encourages private sector participation in infrastructure development in member countries. He described IDB's role in Pakistan's first public-private partnership for hydro-power generation, and invited Pakistan to make use of the various private sector funding facilities offered by the IDB.

Dr Ali identified four crucial areas for the country's future development strategy: ensuring that benefits of economic growth are transmitted to ordinary people; promoting domestic savings for investment; channeling remittances into productive investments, e.g. in infrastructure; and using capital surpluses for gainful investments.

Mr Praful C. Patel, Vice President South Asia Region World Bank, lauded the strong economic growth over the past few years – the result of sound economic policies. He also lauded the Government for its response to the 8 October earthquake, noting that the challenge for the donor community was to translate pledges into disbursements. Mr Patel

said Pakistan's experience was already showing that sustained growth in a pro-poor environment is the best way to tackle poverty.

He conceded that sustaining growth and poverty reduction over the long-term is tough, but identified three action areas that would make this possible: early monetary and fiscal policies to avoid 'economic overheating' and a return to the boom-bust cycles of the past; ensuring the benefits of economic growth are felt by all; second-generation reforms and infrastructure development to reduce the still high cost of doing business in Pakistan.

Mr Juan Miranda, Director General Central and West Asia Department, Asian Development Bank, commended the Government and people of Pakistan on their response to the 8 October earthquake, and reiterated ADB's commitment to helping in reconstruction and rehabilitation. On the theme of the PDF, the role of the private sector, Mr Miranda first assessed needs before considering financing capacities. He pointed out the massive investments required in infrastructure development and public services – in the region of 10-11% of GDP – and the fact that the public sector alone could not generate these resources. Mr Miranda said public-private partnerships were a 'win-win' solution to this problem, but stressed the conditions necessary for these to be effective. These include: allowing the private sector to manage projects within a sound regulatory framework; ensuring political commitment for private sector participation; and choosing optimal modes to bring the private sector into public sector services.

Mr Miranda described the ways in which ADB was and could support the process of private-public partnerships. These include: providing fiscal guarantees for private sector-led development projects; financing interventions conducive to private sector development; supporting decentralization and local governments to better manage public services – including, if needed, bringing the private sector in; and funding projects for 'enabling infrastructure'. Mr Juan Miranda concluded that Pakistan already has successful examples of public-private partnerships and the task now is to increase these.

In his address as **Chief Guest, the Prime Minister of Pakistan Mr Shaukat Aziz** commended the efforts of Pakistanis and the country's development partners in providing relief after the 8 October earthquake. He reviewed the substantial progress made by Pakistan in terms of economic growth and development over the past seven years, stressing the importance of home-grown reforms and of good governance. Looking ahead, the Prime Minister said many challenges remain: ensuring sustained growth, water and energy security, providing social services, and so on. With regard to opportunities, he said Pakistan's location offered great potential for trade – and described infrastructure initiatives by the Government to realize this.

Focusing on the theme of the 2006 PDF, Mr Aziz said the Government recognized the role of the private sector in promoting growth and generating employment, and that the Government's responsibility was to provide an enabling environment for this. He urged the private sector to take advantage of the opportunities being offered. The Prime Minister concluded by identifying some of the key lessons learned to date, including the need to adapt economic growth models to the Pakistani context, to facilitate the private sector, and promote competitiveness. He expressed confidence that, by unleashing the potential of the private sector, a more vibrant and prosperous Pakistan could be built.

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

Background

Competitiveness is a measure of how nations/enterprises manage their resources and competencies to achieve prosperity/profit. The Government is aware of the role of competitiveness in spurring economic growth and has taken various initiatives to increase this. The impact of these is evident from the impressive growth figures of the last couple of years, the flourishing investment climate and strengthened industrial sector. But many challenges remain. The Government recognizes the role the private sector can play in improving competitiveness: the importance the Government attaches to the private sector can be gauged from the 2006 PDF title.

The first 'sector' session in the 2006 PDF examined ways to promote economic growth specifically through the involvement of the private sector. This involved an examination of policies to promote the private sector, create a favourable investment climate, improve agricultural and industrial competitiveness, and meet the challenges of globalization. The session aimed to both assess progress, and identify priorities and challenges ahead.

The session was chaired by Dr Salman Shah, Advisor to the Prime Minister on Revenue, Finance, Economic Affairs and Statistics. The key note speech was given by Dr. Michael Enright, Professor of Business Administration at the University of Hong Kong, followed by panel interventions from: Mr. Rashid Farooqi, Advisor Ministry of Food and Agriculture; Mr. Tariq Saigol, Chairman Koh-i-Noor Maple Group; Mr. Saquib Sherazi, Chief Executive Officer, Atlas Honda Pvt. Ltd.; and Mr. Tariq Rangoonwala, Chairman ICC. A joint discussion was held after speaker/panel interventions in Session III, both because Session II was running behind time, and because the subject matter of Sessions II and III were closely related.

Speaker/Panel Interventions

In his keynote address, **Dr Michael Enright** examined the importance of competitiveness to economic growth, and the challenges faced as countries try to promote competitiveness and the role of the private sector. Dr Enright defined competitiveness – in the national context - as the ability of a nation to support productivity that allows a high and rising standard of living. He described competitiveness as important in dealing with both contemporary pressures (e.g. globalization, increasing resource prices) and opportunities (e.g. emergence of new markets, decentralization of production).

Dr Enright explained that competitiveness is systemic: promoting national competitiveness has to be approached at different levels: supranational, national (regulatory policy, education, training, etc), cluster, industry, and firm – with integration across all levels. He stressed that while no single level can make a nation competitive, any single level can make a nation uncompetitive. Dr Enright also stressed that both the public and private sectors are critical to competitiveness. Increasingly, he noted, it is being seen that countries can succeed if they

carve out a particular set of activities within industry, e.g. China has carved out a niche in assembly of parts manufactured in other countries.

Focusing on how best to unleash the potential of the private sector, Dr Enright used examples from a range of countries to show how this could be done. One reason for Singapore's competitiveness is that every 4-5 years the government puts together a working group, comprised primarily of the private sector, to assess the status of each industry and steps needed to strengthen it. Many of the private sector members represent foreign firms – thereby bringing international experience and knowledge to the process. Dr Enright stressed that private sector participation came about because people knew their input mattered, and their recommendations would be implemented.

In his second example, Dr Enright said the quality of infrastructure in China's three main export regions has given them a huge competitive advantage. Infrastructure development, e.g. of ports, has been carried out by the private sector – usually by foreign firms who are the best in their field. In Sri Lanka, tourism used to be publicly run, but is now promoted by a commission dominated by the private sector. The commission's recommendations are yielding positive results.

Summing up, Dr Enright identified a list of key requirements for the private sector to play an effective role in promoting competitiveness: private sector capacity, public sector capacity, neutral parties to facilitate engagement, an ability to move beyond parochial interests and to look ahead. Specifically about Pakistan, Dr Enright concluded that the country was following a classic pattern to promote competitiveness, and predicted this would ultimately lead to recognition that 'the private sector is king'.

The first panelist, **Mr Rashid Faruqi**, stated that while Pakistan has to strengthen its industrial sector, it should also focus on agriculture. The agriculture sector is the biggest employer in Pakistan: small increases in agricultural productivity can lead to overall economic growth, as well as poverty reduction. In his analysis of the country's agriculture sector, he noted that Pakistan had a competitive advantage in terms of productivity but fell short in other areas, e.g. trade. However, he stressed that these were not static concepts and could change over time – through suitable policies, infrastructure development, and so on.

The Government of Pakistan has initiated measures in this regard, e.g. compliance with WTO regulations and participation in WTO negotiations, infrastructure improvement projects such as lining of canals, market-friendly reforms and liberalization. The results of these steps include stabilized wheat prices, and livestock growth twice that of the previous year. While acknowledging that these were encouraging signs, Mr Faruqi cautioned that the task ahead was still challenging.

He detailed some of the recommendations of a World Bank study, which concluded that Pakistan had a long way to go to make its agriculture sector competitive. Key steps included: continued sound macro-economic policies; technology development and dissemination; improved investment climate; infrastructure development; rationalizing the role of the public sector; improved trade policy and quality controls; and an overall coordinated approach.

Mr Tariq Saigol, the second panelist, gave an overview of the state of the economy. He noted significant achievements: an improved regulatory framework; strengthening of the Central Board of Revenue (CBR); macro-economic stability; increased public sector spending. On the minus side, he pointed to increased inflation – which he said could have been handled through better monetary policies; increased imports and rising oil prices – both of which undermined the benefits of export growth; and the need for further justice sector reform. However, he concluded that in the last 2-3 years the economy had performed much better than anticipated: one proof of which was the sharp increase in corporate earnings.

Mr Saigol flagged a number of areas which he identified as critical if growth was to be maintained. One, political stability: he described an orderly election process and change of government as central to private sector confidence and investment remaining high. Two, the trade gap: Mr Saigol contended that - even with foreign direct investment, remittances and revenue from privatization - this was at a level that was not sustainable over a long period, particularly with rising oil prices. He suggested tackling this through export growth, especially in textiles – an area in which Pakistan had not done enough. Three, energy: Mr Saigol said that energy, especially electric power and gas, had already emerged as major constraints to competitiveness and growth, and described the situation as a failure on the part of Government. Communication and north-south transport also needed to be improved.

The next panelist, **Mr Saquib Sherazi**, gave a private sector perspective on the investment climate in Pakistan. His ‘Pakistan Balance Sheet’ included the country’s manpower pool, developed low-tech vendor industry, stable government and investor-friendly policies as plus points, and the debt burden, growing population and poor social sectors (especially health and education) as minuses.

However, Mr Sherazi said Pakistan’s internal potential for growth was huge, and the country performed well in regional comparisons of GDP growth and industrial growth. [Local ‘know-how’ and multinational technical know-how were described as a good combination for successful joint ventures.] He concluded that Pakistan was heading towards a ‘decade of re-emergence’ but stressed that this required continuity of policies. Specifically, he called for a balanced growth strategy: to date, there was lots of growth in import-substitution areas but less in other areas. Mr Shirazi stressed the need to create an enabling environment for ‘strategic’ industries such as infrastructure, oil and gas.

Mr. Tariq Rangoonwala commended the Government for some of its initiatives to facilitate the private sector and promote growth. He related how the International Chamber of Commerce had sought and obtained Government cooperation for measures to create a more enabling business environment. These included adoption of modern terminologies for trade and transportation facilitation, formulation of the Pakistan Intellectual Property Rights Organization, privatization, deregulation of industry and banking – as well as Government efforts to amend relevant legislation, particularly with regard to enforcement. In his ‘out-of-the-box’ talk, he also pointed out the significant size of the informal gambling sector.

Turning to recommendations, Mr Rangoonwala called for Government action to promote public-private partnerships. Whilst acknowledging that the Government faced enormous

challenges, he stressed that liberalization and deregulation would allow the private sector to really contribute to growth and development. He also listed efficient water management to improve agricultural production; cost-effective energy provision and supportive infrastructure; health, social welfare and education services as necessary conditions. Mr Rangoonwala said these measures would lead to opening up of various sectors such as tourism and art, which would generate employment ultimately resulting in poverty reduction.

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

Background

The Small and Medium Enterprises (SME) sector has enormous potential for generating employment and growth in Pakistan. Its significance can be gauged from the fact that enterprises employing up to 99 people constitute over 95% of all private enterprises in the industrial sector and employ nearly 78% of the non-agriculture labour force. The Government recognizes the importance of the SME sector and has taken a number of initiatives to promote it [Cluster Development Program, OVOP, SME Bank, SMEDA, etc], but more needs to be done.

Given the importance of the SME sector, the 2006 PDF had a session dedicated to the issue – a first in the history of the Pakistan Development Forum. The session focused on key policy reforms and provision of a favourable environment (political, infrastructural, market, and so on) for SME development, as well as the major constraints on SME growth in Pakistan.

Session III ‘Unleashing Potential of the SME Sector with a Focus on Productivity Improvement’ was chaired by Mr. Altaf Saleem, Chairman Earthquake Rehabilitation and Reconstruction Authority (ERRA). Panel interventions were made by: Mr. Awais Mazhar Hussain, Chief Executive Angoora Textile Ltd.; Mr. Shahab Khawaja, Chairman SMEDA; Mr. Tawfiq Hussein, Deputy Governor State Bank of Pakistan; and Dr. Warren Weinstein, Chief of Party, Pakistan Initiative for Strategic Development and Competitiveness. Following speaker/panel interventions a joint discussion was held for Sessions II and III: this was done to save time, and because the themes – the role of the private sector and SME sector in promoting economic growth – were strongly inter-related.

Speaker/Panel Interventions

Mr. Awais Mazhar explained the significance of SMEs to Pakistan’s economy and the problems the sector is currently facing. He pointed out that SME clusters in the apparel industry, surgical goods, and so on, are plagued by productivity issues. For the clusters to graduate to exporting units having a major impact on Pakistan’s growth statistics, more skilled labor/manpower is required as well as better technology. Mr Mazhar noted that vocational training institutes are more geared to local industry than international competitiveness. Companies need to graduate to bigger companies – something he said could only happen if human resources are developed adequately. He suggested sponsorship of these companies should be through government/private partnerships, and expressed confidence that current and future Government policies would lead to strengthening of the SME sector and provision of a conducive environment for SMEs. Mr Mazhar predicted that, in 3-5 years, concerted efforts by Government and the private sector would yield quality and productivity improvements in the SME sector.

Mr. Shahab Khawaja acknowledged and appreciated the growth figures of the past few years, but highlighted the fact that this growth has not been transmitted to the SME sector.

He drew a growth comparison between the SME sector and large-scale manufacturing since the 1970s, which showed the latter had done much better. Within the SME sector, those in Sindh and Balochistan face the most difficulties in their growth. Mr Khawaja listed some of the factors that hinder SME growth: economic policy uncertainty, tax administration, financing costs (interest rates), access to financing (collateral), electricity, tax rates, macro-economic instability, anti-competitive practices and corruption. He said current policies are not sufficiently specified or prioritized for SMEs, regulations are not coherent, and there is no coordination mechanism.

Mr. Khawaja stressed the SME sector's huge potential for development: it can accelerate export growth; hasten GDP growth; ensure better geographical coverage; and, most importantly, promote low-cost employment generation. To help realize this potential, he proposed an SME sector support program.

Mr Khawaja explained that the SME policy has been enacted to identify the role of stakeholders such as private and public sector institutions, and to institutionalize public sector support systems for SMEs. He said the main thrust should be on capacity-building in the private sector for effective business development services: as business competitiveness improves, the Government's role will be phased out. Noting that in other countries where the SME sector has grown, governments have provided support for technology marketing and skills development, he urged that the same be done in Pakistan.

Mr. Tawfiq Hussain focused on the issue of SME financing. Since 2002 there has been significant growth in both the number of borrowers and loan amounts, with SME loans now accounting for 18% of all loans in Pakistan. In addition, Mr Hussain said the Government has taken various initiatives to create a conducive regulatory environment and facilitate best practices for SMEs. These include: development of SME business plans; loan manual procedures and portfolios; large-scale training; seminars in Sialkot and other cities to enhance awareness about products.

Discussing challenges, Mr. Hussain mentioned the inability of SMEs to provide data for analysis by banks, capacity issues, and the need for enhanced awareness of loan products and flow of credit to small as well as medium enterprises. On the latter, Mr Hussain said research has shown that GDP growth and poverty are largely impacted by *small* enterprises.

Dr. Warren Weinstein talked about the likely impact of globalization, including increased competition – particularly for Asian and developing countries. Noting that firms are under pressure to produce high-quality goods that can compete in the international market, he urged workforce enhancement. He also stressed the need for cluster development – since no one would notice individual SMEs. Dr Weinstein said it was primarily the responsibility of the Government to support SMEs by making better policies for them and better pricing. He pointed out that owners of small enterprises could not access the Government, finances, and so on easily, and hence should be facilitated in this.

Dr Weinstein described in detail PISDAC, a USAID-funded project being implemented by SMEDA and other partners. PISDAC focuses on various sub-sectors within the SME sector, e.g. marble, dairy, gems, jewelry, and used some very interesting strategies.

Joint Discussion [Sessions II and III]

The main focus of the discussion was on how the Government can promote effective public-private partnerships, speed up industrialization and facilitate the SME sector.

A number of development partners commended the Government for realizing the importance of the private sector and SMEs and initiating reforms to promote these. There was general consensus that the investment climate in Pakistan is much better than a few years ago, but cautioned that measures would have to be taken to sustain this improvement. Suggestions included: proactive steps to improve the general image of Pakistan (e.g. through public and private media resources); friendlier policies; and successful conduct of the forthcoming elections.

Individual development partners raised additional specific concerns/issues: provision of micro-financing for the most poor and vulnerable; development of better policies and programs to enhance competitiveness and improve the investment climate; initiatives by the Government for meaningful public-private partnerships; the importance of political stability to any country's economy; and a suggestion for horizontal branding of clusters.

Discussion Chair **Dr. Salman Shah** responded to these various concerns. He explained that an infrastructure development company for public-private partnerships with financing facilities is in place; some PPPs have already been carried out, the PPIB is in place and additional steps are underway. Dr. Shah said hydro-electric power is one of the Government's main areas of emphasis and it welcomes private sector involvement to help achieve its objectives. He clarified that strategies are already being developed to improve the image of Pakistan (e.g. better tourism policies, exchange of students). Noting the suggestion of horizontal cluster development, he said SMEDA and the Competitiveness Support Fund should learn from international best practices.

A concern was raised by one development partner that funds provided by it for SME development were not being utilized because of an increase in the reversing interest. Noting the discouraging interest rate differential and increase in inflation, the Government was urged to address these problems.

Delegates highlighted issues of access to land, SME title issues, property rights and so on, with a suggestion that land titling should be computerized. The panel responded that: land records in three provinces are being reviewed; land records are being computerized; the documentation processes of the Revenue Department are being improved to ensure certification of land rights; and the Government is setting up a National Investment Parks (NIPS) program.

Another delegate pointed to the disconnect between access to capital and targeting. The State Bank Deputy Governor explained the complexity of the issue of SME financing: different from normal financing, it carries its own risks and, while venture capital has an equity upside, modalities are complex.

In his concluding remarks, Dr. Salman Shah said the Government is aware of the factors hampering growth of the private sector, e.g. infrastructure, less liberalized markets, and is

taking steps to address these at the same time as promoting public-private partnerships. He acknowledged that more research is needed on access to finance for SMEs, noting that current efforts are directed towards improving banking capacity to understand the financing issues related to SMEs and help them. He said the Government is also tackling other issues that have a negative impact on SMEs, and expressed confidence that these initiatives and the support of the development partners, will lead to development and prosperity of these sectors - in turn improving the investment climate, reducing unemployment, and promoting long-term GDP growth.

IV: MDGs and Human Development

Background

The commitment of the Government to human development, and specifically to the Millennium Development Goals (MDGs), is reflected in its key policy and planning documents: the Poverty Reduction Strategy Paper (PRSP), the Medium-Term Development Framework (MTDF) and Budget. Human development has been a recurrent theme at the PDF; progress on MDGs and realignment of the PRSP for attaining the MDGs was the key theme of the 2005 PDF.

Last year the Government published the Millennium Development Goals Report 2005, to highlight its progress towards achievement of the MDG targets. The 2006 PDF session 'MDGs and Human Development' Session focused on poverty reduction and the key social sectors of health and education. The aim was to assess progress, identify future challenges in achieving the MDGs and poverty reduction, and strategies to overcome these.

Session IV 'MDGs and Human Development' was chaired by Lt.Gen (Rtd) Javed Ashraf, Federal Minister for Education. The keynote speaker was Dr. Nasim Ashraf, Chairperson National Commission for Human Development, and the three panelists were: Mr Jan VandeMoortele, UNDP Resident Representative; Dr. Pervez Tahir, Chief Economist/Member Planning & Development Division; and Ms Shahnaz Wazir Ali, Executive Director, Pakistan Centre for Philanthropy (PCP).

Speaker/Panel Interventions

Mr Jan VandeMoortele presented a paper 'Understanding the MDGs at Age Five' in which he attempted to clarify and correct perceptions about the MDGs and assess Pakistan's progress towards achieving them. Mr VandeMoortele explained that global target setting is an established practice and is useful for mobilizing actors and resources. The MDGs resulted from an incremental process in the 1990s to generate political consensus through world summits and international conferences. The 25-year period (1990-2015) set for the MDGs represents the promise of one generation to the next. The MDGs are ends that can be reached through a plurality of ways and means. Seven areas have been identified as options for pro-poor growth: tax reforms, cost recovery, narrow targeting, inflation targets, financial deregulation, trade liberalization and equity.

Target selection was done on the basis of existence of internationally agreed indicators for measuring progress and whether reasonably good data was available to document trends: most of the missing aspects in the MDGs are due to non-measurability. The main reason for quantitative targets not being uniform is that global targets were set as an extrapolation of the global trends of the 1970s. Mr VandeMoortele stressed that the MDG targets should not be used as uniform yardsticks to measure performance in each country and every region. While the contents of the MDGs – reflecting fundamental social and economic rights - apply universally, their quantitative dimensions do not apply to all.

MDG costing is a complex issue. Different approaches have yielded different results. Mr VandeMoortele stressed the need for each country to cost MDG attainment within its own

development strategy and the macro-economic and sectoral policy framework. He added that while foreign aid is important, it cannot deliver the MDGs. Assessing whether progress is on-track depends on the choice of the indicators. The reliability of an indicator tends to decline as more transformation is involved. Amongst the 48 MDG indicators, he identified five as preferable for their reliability, coverage and relevance.

At a global level, Mr VandeMoortele reported that progress was made in the 1990s, but at a slower pace than in the 1970s and 1980s, and much of it by-passed the poor. He attributed the slowdown to a number of factors including: slow progress in providing universal primary education, persistent gender discrimination, decline in foreign aid, debt burdens, and weak commodity prices.

Turning to Pakistan, Mr VandeMoortele said the country was doing well on some indicators but lags on others. Pakistan now ranks among the countries with 'medium' human development. Pro-poor public spending has increased in recent years but Pakistan's budget allocations for basic social services remain low compared with other countries. Targets for poverty, hunger, under-five mortality and primary education may need to be adapted so as to better balance ambition with realism. Mr VandeMoortele outlined the four steps to formulate a MDG-based national strategy for Pakistan: tailoring the global targets to make them context-sensitive; setting intermediate targets for political accountability; translating them into specific programs and policies; and costing these programs and policies.

Despite the slow start, Mr VandeMoortele asserted that global targets remain achievable: he identified pessimism and prudence as the biggest obstacles to attaining the MDGs. The real challenge is to ensure that growth and progress have a maximum impact on poverty and equity.

In his keynote address, **Dr. Nasim Ashraf** gave an overall assessment of Pakistan's progress on the MDGs, focusing on MDG targets for health and education. Dr Ashraf noted that Pakistan had made significant progress in all critical areas of MDGs since 2000, and that the Government's commitment to the MDGs is reflected in its policy and planning documents. But he said Pakistan faces risks in achieving the MTDF target of reducing extreme poverty to 21% by 2009-10, and the MDG target of 13% by 2015. Deterioration in income distribution and limited allocations for social and poverty related expenditures represent key challenges. Nonetheless, achievement of poverty related targets by 2015 is possible provided policies and programs remain on track.

Education service delivery in Pakistan faces a multitude of challenges. Dr Ashraf stated that present allocations will not achieve the MDG 2 targets of both 100% net enrolment, 100% completion ratios and 88% literacy rate fully. He noted, however, that PSLM indicates improvement in net primary enrolment rates in the past four years and attributed this to a host of demand and supply factors. Positive trends are also observed with regard to gender equality and women's empowerment, and positive results are visible in primary and secondary health care services. A downward trend is observed in under-five and infant mortality rates, but achievements in mortality rates and diarrhoea incidence will fall short of MDG targets. Dr Ashraf identified the main challenges for child health in Pakistan as low access (both in terms of availability and affordability) to good quality nutrition and poor

management of health care and childhood illnesses. He said the Government was cognizant of likelihood of underachievement and had strengthened its health strategy.

Dr Ashraf described how the NCHD employs a fast track initiative for achieving MDGs, involving public-private partnerships to improve the quality and coverage of social delivery systems. The NCHD has facilitated the government's education drive by improving enrolments and reducing dropouts in its operational districts. The Commission is also assisting the government in adult literacy.

Looking ahead, Dr Ashraf asserted that an MDG-based poverty reduction strategy can only succeed with MDG-based global partnerships. Targets for debt relief should not be based on arbitrary indicators (debt-to-export ratios) but on MDG-based needs. If the poorest countries are to achieve the MDGs, ODA needs to double from its present level and the developed world has to provide access to markets, new technologies, and favourable terms of trade to help the developing world. In Pakistan's case, export barriers need to be removed so the country can realize the potential of international trade to enhance economic growth to achieve MDGs. Dr Ashraf stressed that the way forward lies in partnerships: inclusiveness is the key to success – at both international and national levels.

Dr Pervez Tahir talked about the framework for monitoring the MDGs in Pakistan and MDG cost requirements. Effective monitoring and assessment is required to understand shortfalls and refine strategies and policies as well as resource mobilization to put the lagging indicators on track and maintain momentum of others. Overall monitoring and assessment of the MDGs and poverty trends is carried out through the Centre for Research on Poverty Reduction and Income Distribution (CRPRID) in the Planning Commission. Different household and demographic surveys and administrative databases (e.g. NEMIS, HMIS etc) are also used to monitor progress on MDG targets. Monitoring of Goal 7 (Environmental sustainability) is not institutionalized.

Dr Tahir explained that Pakistan is required to report on 51 out of 61 indicators: it has no data on 9, little or no capacity to monitor 12, weak monitoring capacity for 16, reasonable capacity to monitor 5 indicators and good capacity to monitor 9 indicators. He noted the clear room to improve monitoring capacity, and said support from development partners would be welcome. Of the 34 MDG indicators in Pakistan's monitoring framework, ratings indicate the country is ahead on two, on track for 19 and lagging in 13.

Pakistan seeks to achieve accelerated growth within a balanced development framework to create a sustainable economy, society and polity by 2030. The MTDF 2005-2010 outlines a strategy to make growth pro-poor, and envisages the creation of new jobs, overcoming the skills gap, micro-finance provision and social safety nets for the poor. Vision 2030 commits to raising the quality of life for all citizens and improving social and human development indices.

MDG cost assessments for Pakistan put the total cost of achieving education, health, water and sanitation and environment targets at Rs 3.2 trillion. Current financing (contributions by Government, the private and not-for-profit sectors, and existing aid commitments) leave a shortfall of Rs 844 billion – leading to additional ODA requirement of US\$1.4 billion per annum.

Ms Shahnaz Wazir Ali discussed the role of civil society in social development in Pakistan. She highlighted the emergence of non-profit organisations as a strong force working for the public benefit, and specifically in poverty reduction and meeting the MDGs. This includes: tracking and monitoring; building consensus and developing programs for effective implementation; creating links between global target setting and national priorities; re-energizing global political constituencies to accelerate progress; and building alliances and public awareness and debate for action around the development challenges. However, Ms Ali said Pakistan had not yet tapped the huge potential offered by CSOs.

According to a research report, the registered number of CSOs in Pakistan is 56,000 or 62% of the total. Unregistered organisations amount to 38%: of these only 4% have applied for registration, 34% are not interested in getting registered. The data indicates that there is little incentive, protection and benefit for organizations to get a legal status. There is also a huge information deficit with regard to CSOs. In terms of revenue sources, data indicates that most funds come from indigenous sources (88%) and only 6% are derived from the donor community.

Ms Ali said that meaningful partnerships with CSOs could not be formed in the current scenario. She identified the main challenges for CSOs as: limited credibility; lack of transparency; weak regulatory regime; and non-diversified/limited resource base. She recommended that the Government should explicitly define implementation mechanisms that identify where partnerships are required as part of overall national plans; increase spending of unutilised allocations through CSOs and build up the data/information bank.

Discussion

The central theme of the discussion was how to ensure equity of development and how to target interventions to ensure tangible benefits for the poor and marginalised. Private investment and economic growth were considered necessary – but not sufficient. There was consensus that the concept of equality had to be broadened beyond income alone, and that the real challenge for the Government is to target investment towards social and human development. A determined effort is required by the Government to achieve the MDGs. However, it was stressed that monitoring of MDG targets should not be purely quantitative, but should assess quality aspects as well.

Development partner representatives urged the Government to increase social sector spending on a priority basis, with due attention to quality of services. Also to ensure citizens' empowerment (particularly women) so that people can take advantage of the emerging opportunities. Creation of productive employment opportunities and the quality of jobs were noted to be critical: so too the quality of public-private partnerships and their value addition.

Other points raised in the discussion included: the need to improve quality of schools and teachers; raising teachers' salaries; provision of adequate facilities by the Government in health and education; vocational and technical education; greater integration of MDGs with the PRSP and MTDF; reducing asset disparities; and formulation of pro-poor policies to meet the MDGs and promote human development.

V: Environmental Sustainability

Background

This year, for the first time in the history of the Pakistan Development Forum, a session was devoted to the environment. It came in the wake of the first comprehensive National Environment Policy 2005. Session V 'Environmental Sustainability' aimed to provide an assessment of the current environmental situation in Pakistan, and future thinking (policies, strategies and action plans) for integrating environment within the overall sustainable growth and development agenda of the country. Specifically, it focused on: identifying key factors responsible for the degraded environmental situation; the bearing of the environment on poverty, livelihoods security and vulnerability; impact of climate change; multilateral environmental agreements (MEAs) and the role of the private sector.

Session V 'Environmental Sustainability' was chaired by Major (Retd) Tahir Iqbal, Federal Minister for Kashmir Affairs and Northern Areas (KANA). The keynote speaker was Syed Babar Ali, Advisor Packages Ltd. Lahore and Vice-President Emeritus WWF International, and the three panelists were: Dr Tariq Banuri, Director Stockholm Environment Institute-Asia; Dr. Pervez Hassan, Hassan & Hassan Associates; and Mr. Asif Shujah, Director General Pakistan Environmental Protection Agency.

Speaker/Panel Interventions

Keynote speaker **Syed Babar Ali** spoke on the necessity of bringing about an attitudinal change *vis-à-vis* the environment. Environment is an issue of human existence and needs long-term commitment and efforts. Noting that there had been little progress on the environment in Pakistan, Syed Ali attributed this largely to the absence of a long-term vision. Pakistan has many tree plantation campaigns, for example, but there is almost no follow up. He identified the basic problem with regard to the environment as lack of information and awareness.

Syed Ali said the need to tackle natural degradation and improve conservation efforts to increase the country's forest cover had been demonstrated by the October 2005 earthquake. The private sector could help in this regard. Looking ahead, he recommended long-term planning along with dedicated policy-making for education and environmental conservation, and stressed that investment in the environment should not be linked to immediate or short-term returns. He also urged the donor community to be more vigilant and sensitive to the environmental impact of its lending programs.

Dr Tariq Banuri, the first panelist, reviewed the last decade's interventions on the environment. While Pakistan has comprehensive and good policies, results and outcomes are poor. Pakistan is witnessing adverse environmental trends: the state of the environment and governance is poor; cost of environmental degradation is high; forest cover is declining rapidly; contamination levels in surface water are high; and air pollution is increasing. Lack of information and limited public sector funding for independent research on environmental issues are key constraints. There have been some positive developments: staffing of the EPAs; increase in number of EIAs conducted; use of select environmental assessment tools.

But overall, there is little interest, investment and commitment to reverse the rapidly declining environmental indicators.

Dr Banuri stressed that Pakistan needs to follow environmental modernization, which has measurable indicators such as those of the MDGs. There should be policy coherence and a strong commitment to development. Defined targets should be set, with timelines as well as clear indicators for environmental improvement: e.g. for capacities, actions and information (data). Funds should be allocated for monitoring. The Government's Medium Term Development Framework allocates Rs. 21 billion for the next five years: Dr Banuri suggested that release of funds should be linked to the conduct of EIAs for all development projects.

Dr Pervez Hassan talked about the role of the judiciary and judicial commissions in sustainable development issues in Pakistan. Giving a brief history of the legislative and policy framework for environmental protection (as well as the establishment and role of environmental tribunals) he outlined the milestones achieved in this context. Also, the resolve to implement time bound environmental goals in five major sectors, emerging against the backdrop of the Millennium Development Goals and the Johannesburg Summit.

Turning to implementation, Dr Hassan noted that Pakistan is better prepared to tackle the environmental challenge than similar developing countries: it has policy-making and implementation mechanisms supported by laws. But there is a mismatch between words and actions: legislative goals and declared national policies are marked by ineffective implementation and enforcement. Dr Hassan described poor enforcement of laws as a more pressing challenge than their absence.

He identified a number of reasons for Pakistan's poor implementation record: a dearth of professional and scientific capacity; weak environmental protection councils and agencies and under resourced environmental tribunals; and a colonial legacy of loose governance of industry. He also noted that environmental protection is typically accorded low priority in national policy-making: environment portfolios and ministries seldom carry the influence or prestige necessary to advance the environmental agenda, and environmental concerns are seldom integrated into national policies and goals.

Dr Hassan contrasted the failure to prioritise environmental protection with the stress on promoting economic activity. Policy instruments such as the National Housing Policy of Pakistan (2001) and other sector strategies failed to strike a balance between economic growth and ecological integrity. As examples of the primacy of commercial considerations, he pointed to the textile sector (major users of chemicals) and consumer financing for vehicle loans (granted despite the impact on air pollution and the absence of a well-developed public transport network).

Dr Hassan highlighted some of the future challenges which Pakistan would face and be held accountable for: inadequate access to basic amenities including clean water and clean air; the rising burden on cities vis-à-vis housing, public transportation, health care and waste disposal; low forest cover; salinity and water logging; untreated chemicals and industrial waste threatening the food chain; increasing vulnerability of the mangroves; desertification; threats to wildlife and unmet energy requirements.

In contrast to the lack of will displayed by the legislature and executive to promote environmental protection, the judiciary has played an active role - reflected in the various interventions by the superior courts of Pakistan for environmental protection and conservation (see Annex 3). The *Shehla Zia vs. WAPDA* case (1994) brought out the obligation of the state to protect and enforce the fundamental rights to a clean environment guaranteed to the people of Pakistan under the Constitution. Dr Hassan described the growing role of judicial commissions in Pakistan in public interest litigation to tackle complex environmental issues. Other positive examples included: mobilization of public-private partnerships; use of science, technology and technical advice (in Lahore); and the Solid Waste Management Commission in Lahore for urban environmental management. However, Dr Hassan cautioned that judicial commissions could only be effective in cases where expert opinion was not divided, and that they could not be a substitute for policy-making and implementation.

Looking ahead, Dr Hassan first summed up the main challenges: implementation of the ideals of the National Environmental Action Plan and those in the legal and regulatory framework; political will and the leadership role of the Government. He put forward a number of recommendations: making EIAs compulsory for all Governmental projects; public scrutiny of EIAs; recognition of public-private sector partnerships; funding for the federal and provincial EPAs; staffing and skills enhancement of EPA staff; mainstreaming of environmental law courses in syllabi and legal education; ratification of important environmental treaties and adequate resource allocation for implementation of international treaties; provision of incentives to promote compliance with environmental regimes by industry; alliance-building with the media and press to support environmental initiatives; support to civil society; and empowerment to make women allies and partners in the environmental cause.

Mr Asif Shujah provided the government perspective and gave an overview of environmental conditions in Pakistan. He identified the key environmental issues as: air and noise pollution; water pollution; land degradation; deforestation; loss of biodiversity; lack of proper waste management system; low energy efficiency; high migration rate (4.5%) to urban centers and inadequate municipal resources; air and noise pollution; water pollution; land degradation; deforestation; loss of biodiversity; lack of proper waste management system; low energy efficiency and unplanned urbanization. Adverse impact and trends were noted in air emission, quality of fuel oil, vehicle population and growth, inefficient burning of fuel, ambient air quality, level of high suspended particulate matters, implementation and applicability of National Environmental Quality Standards (NEQs).

Mr Khan detailed the approach being taken to achieve environmental sustainability. This included: strengthening linkages between environment and economic sectors; protection, conservation and rehabilitation of environment through legislation, advocacy and participatory approaches; integrating environmental concerns in development; and creating environmental awareness among policy makers as well as different segments of society. He also detailed sector specific actions for energy, agriculture, transport and industry, housing, education, health, mining, population; major Government initiatives and cases referred to environmental tribunals; MTDF projects and estimated costs; brown sector constraints and conservation issues; forest resources, tree cover and wildlife resources and constraints; and recommendations for protecting and conserving the environment.

Discussion

The discussion highlighted the need for balanced development that ensures growth along with a sound environment. Broadly, the priorities identified for improving the state of environment relate to building: (i) interest (ii) commitment (iii) awareness (iv) information and (v) capacities. Quality data was considered an essential requirement for planning and monitoring of development projects. Development partners, as well as Government, stressed the importance of overcoming data constraints – ensuring availability, access and analysis of quality data and new research on environment.

The need for strengthening linkages between the environment and all economic sectors was highlighted, alongside sector specific actions to achieve positive environmental outcomes. Support from donors and civil society organizations, as well as community participation, were regarded as essential. Other important recommendations and priorities emerging from the discussion related to: the enforcement of environmental legislation; compliance with the NEQs; availability of comprehensive and quality information on environmental indicators; capacity building for on-ground monitoring; tackling desertification and water shortages on a priority basis; developing specific projects aimed at improving forest cover; and combining social infrastructure and environmental needs.

V(a): Social Protection

Background

Social protection refers to a range of measures designed to alleviate poverty, reduce vulnerability and exposure to risks, and help people cope with ‘shocks’ like unemployment and illness. Social protection measures include social insurance (security), e.g. medical insurance; social safety nets (welfare), e.g. food subsidies; and labour/income-generating initiatives, e.g. public works programs and micro-credit provision.

In Pakistan, large sections of the population fall into the categories of ‘poor’ and ‘vulnerable’. This has generated a pressing need for social protection measures that can help the chronically poor to escape poverty, and prevent the vulnerable from falling into poverty. A number of social protection measures are in place in Pakistan, most run by the Government and others by civil society groups. These include Zakat, Bait-ul-Maal, EOBI, micro-credit programs and public works programs. However, many challenges remain with regard to social protection in Pakistan: lack of resources and limited reach; ineffective targeting; poor coordination between different programs; and lack of donor support.

Acknowledging the pressing need for social protection in Pakistan, the 2006 PDF had a session dedicated to the issue – a first in the history of the Pakistan Development Forum. As well as considering ways to improve social protection overall in Pakistan, the session focused on two specific issues: provision of micro-credit as a way to help people cope with shocks and come out of poverty, and extension of social protection to the huge informal labour sector in Pakistan (along with ways to mitigate the effects of globalization).

Chaired by the Minister for Social Welfare and Special Education Ms. Zubaida Jalal, the ‘Social Protection’ session had a keynote address by Kalanidi Subbarao, social protection expert with the World Bank, and panel interventions by Dr A. R. Kemal, former Director of PIDE, and Dr Faisal Bari, Director of the Mahbub-ul-Haq Centre.

Speaker/Panel Interventions

In his keynote address, **Mr Kalanidi Subbarao** briefly explained the concept of social protection and its importance. He stressed that resources spent on social safety nets and other measures should not be considered a waste of money, but rather as essential expenditure: helping to reduce income inequities and leading to poverty reduction. Conversely, failure to spend on social protection reinforces inequality and compromises growth, trapping individuals in a life cycle of poverty and vulnerability.

After describing the main social protection measures in Pakistan, Mr Subbarao gave a critique of these. Key issues he identified included: limited reach of social protection programs; poor integration of safety nets with human development and income generation activities; gaps in programs for addressing ‘aggregate’ vulnerabilities (e.g. tackling poverty in natural disasters); low spending on social safety nets, with spending trends showing volatility and overall decline; focus of social insurance schemes on formal sector workers, and failure to reach the large informal sector.

Mr Subbarao drew on social protection experiences in different countries to come up with a list of ‘main lessons’ for social safety nets. These include the need to move away from universal price subsidies to targeted conditional cash transfers, and the related need to institute effective targeting mechanisms. Mr Subbarao cited a survey of 122 safety net programs in 47 countries, which concluded that targeted cash transfers really were the ‘safety net instrument of choice’.

International experience also pointed to increasing the poor’s access to services such as health and education, as well as to micro-credit/training programs, as effective strategies to help them escape poverty. And the ‘main lessons’ list included setting up safety net programs that could be ready to respond when natural disasters like earthquakes occurred, and using public works programs to help the poor weather income shortfalls, e.g. in times of drought, seasonal lows. Mr Subbarao ‘corroborated’ his list of main lessons with specific examples from India, Bangladesh, Mexico and other countries.

Looking ahead, at the opportunities and challenges for social protection in Pakistan, Mr Subbarao noted that the Government was committed to tackling poverty and to social protection, and it was in the process of finalizing a social protection strategy. He recommended a number of measures for more effective safety nets: improved targeting of cash transfers to reach the very poorest; expanding social welfare and care services through public-private partnerships; developing safety nets to address poverty in times of crisis; improving the poor’s access to social services and to micro-credit/training; and improving the funding and management of social insurance schemes.

In conclusion, Mr Kalanidi Subbarao reiterated that investment in social safety nets should not be considered a waste of resources, but as essential for helping achieve a more equitable, just and prosperous Pakistan. He expressed optimism that Pakistan had the capacity to succeed.

Access to micro-credit can help people withstand shocks like unemployment and illness, and can help the poor escape poverty. **Dr A. R. Kemal**, the first panelist, also stressed the importance of social safety nets – particularly given the growing size of the informal labour sector in Pakistan, and the large numbers of ‘working poor’. He explained how micro-credit can help reduce poverty (e.g. helping informal enterprises to increase productivity) and reviewed the existing mechanisms for micro-credit provision in Pakistan.

Dr Kemal identified a number of issues with access to micro-credit in Pakistan: bureaucracy and red-tapism; limited reach – only a small percentage of those needing micro-credit actually receive it; inappropriately located micro-credit institutions. Given that many micro-credit programs operate at much lower rates of return than informal lending schemes, he questioned their long-term sustainability. He also noted that the effectiveness of micro-credit programs was determined solely on the basis of repayment: he suggested that additional criteria such as poverty reduction, empowerment and human development should be applied.

Whilst acknowledging the role of micro-credit in poverty reduction, Dr Kemal stressed that this alone was not enough to improve living standards. If the poor were really to be lifted

out of poverty, they needed to be given support to improve labour productivity, e.g. education, technical skills, business skills. He also stressed the need to promote productive use of micro-credit, noting that it was often the same people who came back again and again for micro-loans.

In his critique of social protection programs in Pakistan, **Dr Faisal Bari**, the second panelist, echoed the points made by the earlier speakers: limited resources and reach, lack of coordination, ineffective targeting, adhocism, and so on. Dr Bari also echoed Kalanidi Subbarao in identifying conditional cash transfers as the most effective way of reaching the poorest in society. He categorized public works programs as a form of conditional cash transfer, in that the condition for receiving cash is labour.

The informal labour sector is doubly disadvantaged in Pakistan: it is most in need of social protection, and it falls out of the ambit of most programs, especially social insurance schemes. Dr Bari suggested some ways to extend social insurance coverage to the informal sector. While public works programs could reduce income inequalities, health insurance or cash transfers tied to social services (health, education, etc) could ensure that those in the informal sector share some of the benefits of those in the formal sector. Dr Bari said it would be relatively easy to expand services and benefits to those in contract labour, but acknowledged this would be harder in the case of the agricultural sector and informal sector. With regard to labour conditions, Dr Bari suggested that the focus should be on protecting workers rather than jobs, e.g. through emphasis on training, skills and education.

Discussion

The discussion picked up many of the points made by the speaker/panelists, and raised important new issues. The former included the need to protect those in the informal labour sector, many of whom were working illegally and were therefore vulnerable to harassment by the authorities. Dedicated space in every town/city for the poor to build homes was suggested as one way to reduce their insecurity.

Several people noted the importance of social protection and commended that fact that this was finally being recognized. But faced with an array of different approaches to promoting social protection, they questioned which of these – given the resource and capacity constraints in Pakistan – should be prioritized? Where to start with implementing social protection in Pakistan?

In response to this question, as well as queries about the effectiveness of conditional cash transfers versus food subsidies, both Mr Subbarao and Dr Bari reiterated the need for the former. Mr Subbarao explained that food transfer programs in many countries were hampered by logistical issues, as well as wastage and corruption. He said there was a lot of supporting evidence for targeted cash transfers having better outcomes – especially in situations where food was available in the market. He called for a nationwide conditional cash transfer program to be implemented in Pakistan, alongside public welfare programs that could kick in quickly in times of crisis (e.g. the recent earthquake) and insurance schemes for specific groups such as destitute women and the elderly – people with no other income source. Dr Bari additionally recommended setting up an institution to ‘find the poor’ and ensure effective targeting. He stressed the need to invest ‘up front’ in such an institution

(thereby addressing concerns about corruption), and suggested that local governments could play a role in this.

All three speakers were criticized for their ‘gender-blind’ analysis of social protection in Pakistan. Given that some two-thirds of the poor in Pakistan are women, it was suggested that social protection needed to be discussed specifically in the context of women.

There was also debate about the comparative role of Government and civil society groups/private sector organizations in promoting social protection. The consensus that emerged was that poverty reduction is first and foremost, the responsibility of the Government and that, while there could be private-public partnerships, the process had to be led by Government. However, it was also acknowledged that partners working with Government could sometimes deliver desired outcomes more effectively.

Additional comments made in the discussion included: the need to improve targeting of social protection mechanisms; the fact that informal coping mechanisms (e.g. family support) were eroding – thereby creating even more demand for formal programs; and the importance of enhancing agricultural productivity, given that a large section of the work force are employed in the agriculture sector.

In her concluding remarks, **Minister for Social Welfare and Special Education Ms Zubaida Jalal** reiterated the point made in the discussion that, while social protection is everyone’s business, it is primarily the responsibility of the Government. ‘Government can’t sub-contract social protection’. Noting that poverty reduction strategies were most effective when they were country-specific and evidence-based, Ms Jalal announced that a National Social Protection Strategy was close to finalization and appealed for support in implementing this. Specifically, she said the Ministry for Social Welfare and Special Education was in need of institutional strengthening, and called for capable personnel to be provided from all related Ministries to help with this. She also repeated her call at the 2005 PDF for better data, so that targeting of social protection programs could be done more effectively.

VI: Infrastructure – Energy, Water, National Trade Corridor

Background

Maintaining and improving key infrastructure is necessary for Pakistan's growth and prosperity. The Poverty Reduction Strategy Paper identifies power, water, roads, transport and telecommunications as the supportive infrastructure for economic growth and poverty alleviation. It also specifies private sector investment in infrastructure. The 2004 PDF had infrastructure as its central theme, while the 2005 PDF discussed progress and investment plans for water and energy security, transport and urban infrastructure in the context of the Medium-Term Development Framework (which focuses on these sectors).

The main objective of the 2006 PDF session was to assess the infrastructure requirements of Pakistan's growing economy, opportunities and challenges. Because of time constraints, the session focused on three priority sub-sectors: energy, water and the National Trade Corridor (NTC), assessing the growth potential in these sectors, resource requirements and the role of private sector.

Session VI 'Infrastructure – Energy, Water, National Trade Corridor' was chaired by Mr. Liaquat Ali Jatoi, Federal Minister for Water and Power. The three panelists, speaking on the respective sub-themes of energy, water and the NTC, were: Mr. Ahmad Waqar, Secretary Ministry of Oil, Gas and Natural Resources; Mr. Ashfaq Mahmood, Secretary Ministry of Water and Power; and Dr Asad Shah, Member Planning Commission. Panel interventions were followed by an open discussion.

Speaker/Panel Interventions

Due to the Government's investment-friendly policies the economy is growing and the corresponding energy requirement is increasing at a rate of 10% per year. The Government is working in all sectors - coal, gas, hydel power and even alternate energy - to meet this demand. Session Chair **Mr. Liaquat Ali Jatoi** opened the session with a few announcements on the Government's recent achievements and initiatives in this regard. He informed the audience that 95% of work towards privatization of Water and Power Development Agency (WAPDA) had been completed; the ground-breaking ceremony had just taken place for Bhasha dam, which would have an installed capacity of 4,500 MW for electricity. Last year the government started a drive for the complete electrification of Pakistan by providing electricity to 13,000 remaining villages: Mr. Jatoi said 9,600 of these had already been reached and WAPDA would complete the rest by the planned target of 2007.

For private sector investment, the Private Power and Infrastructure Board (PPIB) has been reconstituted and restructured to have a majority private sector representation. It is being made into a simplified one window operation for investors and the 16 current Independent Power Providers (IPP) with 6,000 MW of installed capacity. The Board will use International Competitive Bidding (ICB) for transparency. For the first time, seven Letters of Interest (LOI) have been issued to the private sector for hydel power generation. Mr

Jatoi announced that the Government is also looking into buying electricity from Tajikistan coming through Afghanistan. Both countries have agreed to the trade.

The Minister said water management and conservation is a priority for Pakistan and projects for dams, canals and lining of water channels are underway. These, he stressed, are imperative for reducing poverty. Along with water conservation, a further Rs. 32 billion is being spent to improve distribution to reduce line losses. Mr. Jatoi urged development partners to support the Government in these endeavours, and thanked them and the private sector for their support.

The first panelist, **Ahmad Waqar**, gave a presentation on the status of the energy sector, and strategy for this, including the role of oil-based fuels. He said that Pakistan uses 55 Million Tones Oil Equivalent (MTOE) per year, out of which oil and gas have the largest share. The import bill for Pakistan is USD 6.5 billion and accounts for the 82% of the country's oil requirements that are imported. He noted that even with considerable increases in gas production in the last five years, and the decreased reliance on oil in quantitative terms, the oil bill was still rising because of the high price of oil in the international market. In the medium term he predicted that the oil and gas share in the energy mix will decrease, but will still form the largest portion.

Mr Waqar explained that the Government has introduced several policies for moving towards complete energy security. Its strategy is to increase oil and gas production, increase hydro-power generation, increase the share of coal and promote private sector investment. Since the Government cannot meet the demand itself, a forum was recently held with China to increase investment in energy sub-sectors. Other initiatives in the area include: import of gas; Liquefied Petroleum Gas (LPG) and Compressed Natural Gas (CNG) policy to substitute diesel; and revision of exploration and production policies for oil and gas in the light of the international market situation. The Secretary said Pakistan was looking at three options for gas imports: Iran and Turkmenistan, India and Qatar. [The Asian Development Bank is helping with the second.] He said the third option for import from Qatar is more challenging as the pipeline would be coming under the sea. Eventually, however, Pakistan would need all three pipelines to meet its energy needs.

Mr Waqar stressed the need for private sector investment in the energy sector to meet demand. Acknowledging that this requires an enabling environment, he said the Oil and Gas Regulatory Authority (OGRA) had been mandated to shorten the license-processing time to ninety days and was close to international best practices. In addition, investment required project financing facilities and institutional capacity-building in the energy sector.

Mr. Ashfaq Mahmood, the second panelist, focused on water resources and allied energy issues. He gave an assessment of the country's power situation: currently Pakistan has 19,500 MW of power production installed while the demand for electric energy is 14,000 MW. However, demand will increase by 6,000 MW by 2010: meeting this increased demand will cost around USD 10 billion (including transmission and distribution). The Government plans to meet this largely through hydel energy, and is inviting private sector investment in this: seven letters of intent have already been issued. Mr Mahmood conceded that, with few examples of private sector hydel generation, this was a challenge. He outlined some of the Government's other initiatives to meet energy demand: development of coal-based

generation from indigenous resources in Pakistan, something the private sector has shown interest in; search for renewable energy - a survey of wind energy potential in the country is underway and the private sector is being encouraged to set up wind farms of 50MW each; 8,800 MW of nuclear energy production being planned by the Pakistan Atomic Energy Commission. Oil and gas would have to cover the balance.

On the infrastructure side, the Secretary said the plan is to upgrade transmission and distribution. He reported that line losses had already decreased from 24% to 21% approximately, but further augmentation of the choked transformers and lines is required. To give energy to all villages, some of them in far-flung areas, off grid renewable sources would be allocated and developed through the private sector, as connecting them to the national grid is very costly. He also explained that import of regional energy is part of the strategy, and some energy is already being imported from Iran for Gwadar port.

The reform program for the power sector comprises restructuring and privatization. Mr Mahmood conceded that the restructuring of WAPDA had been an arduous task (since the change management requirements for a company of its size and age are considerable) and re-allocation of manpower and capacity to run independent companies was difficult. [He expressed gratitude to donors for restructuring the debt accordingly.] For privatization, he said Faisalabad Electrical Supply Company (FESCO) is being offered for private sector management, with Jamshoro following soon. In addition, leasing of public sector power plants for private sector efficiency is also being considered. For financial sustainability of the power sector, rationalization of tariffs and phasing out of subsidies is underway. Mr Mahmood predicted that the financial independence of the restructured and privatized companies will help clean up the balance sheets of WAPDA.

The Secretary stressed that, with the cost of these developments coming to USD 10-17 billion, private sector participation is imperative. To induct the private sector the Government had an 'open arms' policy for projects based on total private ownership, public-private partnership and arrangements for Build Own Operate (BOO) and Build Own Operate and Transfer (BOOT) projects. Profits, especially on the basis of efficiency, are welcome and there is no condition on where these are kept. Mr Mahmood said the Government was ready to cover all of the political and some commercial risk: the strategy for risk is that the party in the best position to cover the risk should take it. The price policy for the private sector is that the tariff is given upfront and is publicly available from the National Energy Policy Regulation Authority (NEPRA) website. In sum, there has been a paradigm shift and the Government is much more private sector-friendly.

Turning to the water sector, Mr. Ashfaq Mahmood said that agriculture accounts for 70% of exports and 64% of income. However, even with improved agricultural practices in water management, the country was facing water shortages of 20 Million Acre Feet (MAF) in 2020. Other sources of water such as hill torrents have not been tapped, while ground water is being overused. Long-neglected infrastructure needs overhauling, rehabilitation and modernization. Mr Mahmood outlined some of the Government's initiatives: five new storage facilities for 8 MAF of water; and projects to reduce water losses through lining of canals, better irrigation practices, laser leveling and furrow and border irrigation. He noted that 40-50% of losses can be reduced through lining of canals and water courses, amounting to 4-5 MAF of saved water (but every ten years the lining has to be replaced). USD 25

billion assistance is needed for water security measures, but there is a lack of private financing.

Dr. Asad Shah shared the National Transport Corridor (NTC) vision and said that it was to enhance competitiveness and promote regional trade. According to the Vision 2030, Pakistan aims to enhance its share of world trade from 0.2% to 2%. Dr Shah gave examples of areas needing improvement if this is to happen: existing dwell times at ports are behind international standards; inefficiency of the road transport sector costs 4-6% of the GDP; the rail share of transport needs to increase by 20%. Measures are needed to carry out the necessary improvements. To date, Dr Shah said an interagency task force under the chairmanship of the Prime Minister and led by the Planning Commission and Secretariat has been set up. A core group of advisors has been formed and include representatives of donors like World Bank, Asian Development Bank and Japan Bank for International Cooperation. The cost of the various interventions is about USD 6 billion for the next 5-6 years. There are six main elements of the program and targets have been set for each of the elements.

Discussion

Development partner representatives used the discussion to raise concerns about a number of issues with regard to the energy, water and transport sectors. A major concern was over the current Rs.100 billion subsidy in the power sector and how this was to be removed and funding requirements – running into billions – met. It was suggested that private sector management of dams could give returns to recover costs in five years, and that Pakistan should give good incentives to attract investment. The panelists explained that gradual unbundling and removing subsidies and privatization was proceeding, and agreed that the sector needs public-private partnerships.

Another concern was over the excessive use of water in Pakistan: the country uses four times more water than the world average for wheat and 7-8 times for sugarcane. Mr Mahmood clarified that productivity is not just water related, but said better irrigation practices are being taken up. Since laser levelers were not available in the market, manufacturers were being given incentives to produce them. A 40% improvement in irrigation was expected by 2020 and 50% in 2025.

Delegates sought an update on the status of the Iran-Pakistan-India gas pipeline. Mr Ahmed Waqar explained that the Government was discussing pricing and structure, but since negotiations are in an advanced stage, details could not be made public. He said it was anticipated that the paperwork would be completed this year and, allowing 3-4 years for construction, Pakistan should have extra gas by 2010.

It was pointed out that policies to expand coal power needed to ensure environmental protection, and that energy conservation strategies could make big savings. The panel responded that, on the former, there are environmental standards for all projects and coal production will comply with these: land, air, particle emissions will all be adhered to. On the latter it was explained that reduction in losses and upgrading of infrastructure were both conservation measures. Furthermore, the Ministry of Environment is preparing a policy for energy conservation and ENERCON is working on demand management.

Development partners expressed support for the Government's energy reforms, and commended the fact that financial and managerial independence of IPPs are being ensured. However, they queried why there had been no new IPP since 2002. The panel responded by saying that there is a central power agency to buy energy and it has been strengthened. Pakistan had an over-supply of energy and had to stop increasing IPPs because of the cost and guarantee of buying. But a number of projects are in the pipeline and new IPPs should be coming on board within two years.

To a comment that international arbitration is a bottleneck for international investment, it was stated that an accord has been signed in New York, so Pakistan must honor decisions made in international courts. The Government is taking the appropriate legislative measures. Finally, the hope was expressed that a comprehensive plan for the transport sector, prepared by JICA, would be incorporated in National Transport Corridor planning.

VI(a): Devolution – Progress, Future Priorities and Challenges

Background

Devolution has been a recurring theme at the Pakistan Development Forum. The 2006 PDF took place after an eventful year for local governments: Amendments to the Local Government Ordinance were passed in June 2005 – bringing about significant changes in local government functioning (fiscal decentralization, inter-governmental relations, union council size, local government staffing, and so on) - and the second local government elections were held between July and October 2005.

The 2006 PDF session ‘Devolution: Progress, Future Priorities and Challenges’ aimed to provide an overview of implementation of devolution reform, and examine specific aspects of this: fiscal decentralization, local regulation, local government staffing and citizen empowerment.

Chaired by Daniyal Aziz, Chairman of the National Reconstruction Bureau, the session had four panelists: Dr Ali Cheema of LUMS; Ashraf Wasti, private member of the Sindh Provincial Finance Commission; District Nazim Haripur Yousuf Ayub; and Yusuf Khan, CEO of the Devolution Trust for Community Empowerment (DTCE). Panel interventions were followed by an extensive open discussion.

Speaker/Panel Interventions

Dr Ali Cheema reviewed the overall progress of devolution reform since its introduction in 2001. In his ‘plus-minus’ analysis, he noted positive features in both the design and implementation of devolution. Design features that stand out are the fact that the bureaucracy has been made accountable to elected representatives; a legislative framework that recognizes community groups as partners in development and, furthermore, incentivises partnerships (notably via CCB reserved funds); and the intergovernmental formula-based fiscal transfer system. With regard to implementation achievements, Dr Cheema pointed to significant improvements in service delivery outcomes; and more widespread distribution of spending and access to services. But he also noted the continued trend for people to move from public to private sector service providers.

Dr Cheema explained the ‘mixed results’ as partly due to the fact that devolution reform had not been completely institutionalized. In particular, he noted that administrative decentralization had not been carried out while fiscal decentralization was only partially in place. Vertical programs have often been criticized as undermining devolution because they bypass local governments in service delivery. Dr Cheema also described the proliferation of vertical programs as a negative development, effectively ‘recentralizing’ service delivery.

Looking ahead, Dr Cheema recommended tackling these issues through full implementation of reform, and phasing out vertical programs. He also stressed the need to build local government capacity, especially in budgeting and planning. He called for MIS systems and proper planning to be instituted, thereby ensuring that resource allocations are made in accordance with people’s needs. Proper planning would also curb the current practice of

politically determined allocations which, whilst sometimes effective, at other times bypassed needy areas and villages.

All three remaining panelists stated that, while there were issues with implementation of devolution, on balance the local government system was working and people were seeing results.

Mr Ashraf Wasti, member of the Sindh Provincial Finance Commission, focused on fiscal decentralization. Among achievements he noted: establishment of the PFCs and releases based on the PFC Awards; increased OSR generation by local governments and preparation of monthly account statements; and transfer of UIPT to TMAs. Mr Wasti also outlined the various donor-funded programs that were strengthening fiscal decentralization. Among challenges he identified: lack of capacity for financial management; lack of resources – and OSR for District Governments; poor monitoring; vertical programs; slow community participation via CCBs; and vertical imbalances between different tiers of local government.

In his list of achievements District Nazim Haripur, **Mr Yusuf Ayub** included: fully empowered local governments; reduction in staff absenteeism; the fact that local governments received fiscal transfers via the PFC; and improvements in service delivery. He stressed that the perception that devolution had eroded local regulation was not based on evidence: issues of encroachment, price controls, etc. were being effectively dealt with.

Mr Yusuf Khan, CEO of the DTCE, focused on citizen empowerment and participation via Citizen Community Boards (CCBs). He highlighted the substantial increase in CCB members over the past 2-3 years, and the subsequent shift in the citizen-state relationship. He particularly noted the empowerment of women: their move from the domestic sphere to the political and social sphere had become accepted and they had unprecedented access to development resources and decision-making. Mr Khan acknowledged that there were challenges, e.g. incomplete implementation of the local government system. But he claimed that a lot of negative perceptions were due to under-reporting and hence could be tackled through effective communication.

Discussion

Devolution (and wider governance) reform is one of the main areas of donor interest and support in Pakistan. Virtually all donors have some initiatives related to devolution and local governments. Not surprisingly, then, there was strong participation by development partner representatives in the discussion about devolution. Several commended the fact that devolution reform was progressing, and acknowledged the achievements to date, e.g. vastly increased women's participation.

But they also raised concerns about a number of aspects of devolution reform and implementation. These included: elite capture of CCBs and the relatively low level of participation by women in CCBs; how to further enhance women's empowerment; how to integrate vertical programs into devolved systems of service delivery; implementation of related reforms critical to the success of devolution, e.g. police reform; lack of capacity on the part of local governments; lack of provincial ownership of devolution and tensions

between provincial and local governments; failure to set up District Ombudsmen offices; and the introduction of local governments in Islamabad, FATA areas and cantonments.

A number of proposals were put forward to address these issues: devolution from federal to provincial governments, and clear demarcation of provincial and local government responsibilities; enhanced capacity building of local governments; and separate local government budgetary allocations for women. Vertical programs tend to be favoured by donor agencies because of poor implementation capacity on the part of local governments. Given a choice between granting local governments autonomy or waiting for them to attain the necessary skills and capacity, it was strongly recommended that autonomy be given first – capacity building could follow.

National Reconstruction Bureau Chairman Daniyal Aziz responded to the concerns expressed by development partner representatives. On the issue of vertical programs, he stressed that phasing these out was really up to donor agencies. The Government had commissioned a study on devolution, undertaken by the World Bank, ADB and DFID, which clearly identified vertical programs as a constraint on devolution. Implementing the study's recommendation to end vertical programs was the responsibility of donor agencies. He added that expansion of local governments into FATA areas had been notified, but could not say when this would happen in Islamabad.

On the question of provincial-local government tensions, Mr Aziz acknowledged that these would persist so long as organizational/administrative control of devolved functions remained with provincial governments. What was needed was for local governments to be given organizational control, and provincial governments to play a regulatory role. Mr Aziz announced that draft plans for provincial restructuring along these lines had been circulated, and would soon be posted on the internet. But he noted that implementation of these measures could be delayed by the forthcoming national-provincial assembly elections.

Dr Cheema noted the high level of provincial participation in the recent local government elections – leading to the creation of linkages between provincial and local governments. He stressed the need to abolish the concurrent list and empower the provinces. Mr Ashraf Wasti additionally recommended that some buoyant taxes, currently assigned to the federal government and contributing to vertical imbalances and provincial dependence on federal transfers, should be reassigned to provincial governments.

A number of people expressed concern about the negative impact of factionalized, local elite politics on devolution generally, and CCBs in particular – promoting elite capture of CCBs. Dr Cheema said breaking this phenomenon first required acknowledgement that elite capture is not uniform: a number of factors are involved, and there are many variations in form and impact which needed to be documented. This in turn requires effective mapping systems. He also suggested that planning and expenditure coordination at provincial level could reduce the distortions emerging from elite capture. The NRB Chairman contended that there had been much more scope for elite capture in the old, pre-devolution system of administration.

There was also debate about the best way to promote women's participation in CCBs. While some advocated separate women's CCBs, others opposed these on the grounds that

women's participation in CCBs should be mainstreamed – there should not be parallel 'women only' structures. Making 33% women's membership of CCBs mandatory was proposed as an alternative. DTCE CEO Yusuf Khan acknowledged that women CCBs made up less than 10% of the total, and low women's participation was a concern. But he also pointed to achievements in women's participation: the number of female Nazims/Naib Nazims had doubled in the 2005 elections; there were fewer vacant women's seats. He also claimed that there were 'amazing women CCB success stories': the problem was poor communication and coverage of these stories.

On the issue of elite capture of CCBs, Mr Khan said the DTCE was trying to curb this through a multi-pronged approach: effective communication, clustering of CCBs, enhanced public interest litigation, press clubs, and so on. He expressed confidence that this holistic approach would deliver results within a few years. One participant suggested that tackling the issues being faced in devolution – such as elite capture – required radical measures, foremost among which was land reform.

VII: Second-Generation Reforms

Background

The second generation reforms are aimed at strengthening institutions, improving the competitiveness of Pakistan's industries, building a robust financial system in an environment of global financial restructuring, further strengthening tax administration, improving the legal, police and judicial system, restructuring the civil services, promoting transparency in economic policy-making, and strengthening the country's physical and human infrastructure to support a high-growth trajectory. Second generation reforms were a key focus of the deliberations held during the 2005 PDF. This year's session attempted to evaluate Pakistan's progress on the reforms; their scope and key elements; the challenges facing Pakistan and priorities of the Government.

Dr Shamshad Akhtar, Governor State Bank of Pakistan, chaired Session VII 'Second Generation Reforms' in place of Dr Salman Shah, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics. The keynote speaker was the Minister of State for Finance Mr Omar Ayub. Panelists were: Dr. Shamshad Akhtar; Mr Razi-ur-Rehman Khan, Chairperson Securities and Exchange Commission of Pakistan (SECP); and Dr Ishrat Hussain, Chairman National Commission for Government Reforms.

Speaker/Panel Interventions

In his keynote address **Mr Omar Ayub** described the current status of second-generation reforms and the Government's future agenda. Mr Ayub explained that structural reforms are the essence of development and entail measures that change the institutional framework and constraints governing market behaviour and outcomes. The Government was cognizant that Pakistan required a prolonged period of macroeconomic stability, financial discipline, and consistent and transparent policies. It is committed to structural reforms in order to correct market failures and improve efficiencies of the markets, remove impediments to private sector development, promote a better investment climate and improve resource allocation. He outlined the major reforms implemented to date: financial sector reforms; capital markets reforms; tax and tariff reforms; reforms in tax administration; fiscal transparency; reforms in privatization program; governance reform, particularly with respect to devolution and capacity building; agricultural reform and bringing the private sector into wheat operations; movement of commodities; and most importantly, the passing of the Fiscal Responsibility and Debt Limitation Act 2005.

The Minister noted that, despite a series of domestic and external shocks, Pakistan's economy has made significant progress over the last six or seven years. He pointed to some of the achievements resulting from the Government's policies and reform program: strong economic recovery; reductions in poverty and unemployment; narrowing of the revenue-expenditure gap; sharp reduction in the debt burden; exports, imports and tax collection growth at high double-digit rates; workers' remittances continuing to flow at over \$4 billion per annum; stable exchange rate; inflow of foreign investment continuing to rise; privatization program gaining further momentum; foreign exchange reserves continuing to rise; improved credit rating; Pakistan's re-entry into the international capital market; its

success in extending a whole range of yield curves from 5 to 30 years in the shortest possible time (two years); and most recently Pakistan's entry into the international equity market.

Mr Ayub explained how the changing economic landscape has led to the emergence of new challenges — with the main challenge today being how to sustain growth momentum. He said sustaining a growth momentum of 6–8% per annum would require more efforts and more reforms, adding that reform is a dynamic concept, and the economy must continue to adjust with the changing domestic and international environment.

The Minister outlined the agenda for the next five years. This includes: strengthening institutions; improving industrial competitiveness; building a robust financial system in an environment of global financial restructuring; further strengthening of tax administration; promoting transparency in economic policy-making; further reform in capital markets; and strengthening the country's physical and human infrastructure. He stressed that strengthening of institutions is vital to remove obstacles to higher growth and better social service delivery. The Government has already launched major initiatives in this regard, prominent among which are: reforms in judiciary, police, civil service and pensions; restructuring of the Central Directorate of National Savings (CDNS); transformation of the existing Monopoly Control Authority (MCA) into a Competition Authority Organization; and introduction and adoption of an E-Government Strategy.

Mr Omar Ayub elaborated progress and challenges being faced in these various reform areas. He conceded that progress on judicial reforms was slow, though some progress had been made on police reform. With regard to civil service reform, he said major progress had been made in enhancing the capacity of civil servants through training within and outside the country.

He outlined several initiatives being taken to promote the private sector and industrial competitiveness. Restructuring of the Federal Bureau of Statistics, with a view to converting it into an autonomous institution, is high on the reform agenda. An Economic Reform unit in the Ministry of Finance is being set up with a view to coordinating with other ministries in implementing various reforms. This unit will also serve as Secretariat for the Private Sector Development. The Government has recently set up an Infrastructure Project Development Facility in line with public-private partnership. The Competitiveness Support Fund (CSF) has been established under the Ministry of Finance as an independent body to provide venture capital funding, matchmaking facilities, and help to foster cooperation between government, educational institutions and the private sector. The banking and financial sector of Pakistan is much stronger today but needs further strengthening to meet the challenges arising from global financial restructuring.

Finally the Minister outlined some future reforms: voluntary mergers and consolidation of smaller banks to become effective and strong banks; further strengthening of the legal infrastructure of the banking system; formulation of a new Banking Law to deal with current and future challenges; a deposit insurance scheme to protect small depositors; further liberalization of financial services. He stressed that tax administration reform is the cornerstone of the Government's reform agenda, and a major overhaul of the Central Board of Revenue (CBR) is being implemented. Transparency in economic policy-making is vital to build investors' confidence. Mr Ayub said the Government has introduced wide-ranging

reforms in capital markets, as a result of which Pakistan's stock markets have emerged as one of the fastest growing among emerging markets of the world. Further reform includes demutualization of stock exchanges, which is at an advanced stage.

Mr Omar Ayub concluded that Pakistan has immensely benefited from the first generation of reforms and the introduction of second generation of reforms would further strengthen its economy.

Dr. Shamshad Akhtar focused on the consolidation and merger of financial institutions, and the privatization of banks such as the Agriculture Bank and SME Bank. She detailed measures for improving and extending outreach of micro financing, and steps taken by the State Bank to strengthen the financial sector, foster investor confidence, promote the private sector, and generate economic growth. Dr Akhtar said the SBP's focus on strengthening efficiency and performance of the banking sector has increased and this is yielding visible results. Other reform priorities for the Central Bank include setting in place standards and requirements for proper disclosure, efficiency in financial intermediation, promotion of development finance and mainstreaming of agricultural credit. Conceding that human resource availability and quality represent a key challenge for the SBP, she said a taskforce has been set up to address this.

Mr Razi-ur-Rehman, the second panelist, gave an overview of the second-generation reforms related to strengthening of capital markets and maintenance of a conducive environment for business growth. The role of inspections, monitoring, and surveillance was highlighted and initiatives taken by the SECP were detailed. For example, the Insurance and Corporate Law Review Commission is being set up to suggest changes in the corporate sector. Mr Rehman also discussed risk management by the SECP. He explained that the overall thrust of the SECP is geared towards market and product development, development of capital markets and the corporate sector, and creating a favourable investment climate in the country. He also identified lack of capacity—recruitment and retention of skilled human resource — as the greatest challenge facing the SECP.

Dr Ishrat Husain presented the rationale, objectives, scope and methodology of the newly appointed National Commission for Government Reforms (NCGR). Dr Hussain stressed that meaningful change is contingent upon effective and efficient institutions to implement policies and programs. The Commission has been set up to tackle the legacy of weaknesses and inefficiencies hampering the public sector. Its objective is to recommend measures for improving the delivery of basic services as well as the efficiency and performance of the various tiers of the government.

The scope of the Commission is very wide-ranging; it extends to all tiers of the Government, horizontal relationships within and across these tiers, internal structures and hierarchical relationships governing the structure, composition, delegation of powers and HR policies in respect of Secretariat and executive agencies; size, cadre and composition of the Civil Services at all levels and civil service structure and human resource policies, business processes including rules of business, financial, administrative and establishment rules and regulations and automation. Dr Hussain explained that, in order to achieve its objectives, the NCGR will review and rationalize division of functions and responsibilities to avoid duplication and overlapping of work; review and recommend the internal organization and

hierarchical structure of the Ministries and departments at all tiers, including existing civil services at federal and provincial levels; recommend appropriate size; identify redundancies, gaps and propose remedial measures; define job descriptions and skill requirements for each level; review policies for recruitment, training, performance management, career progression, promotion benefits, compensation based on performance, severance and disciplinary action, retirement and benefits; and review rules and regulations.

The Business Processes Review will use modern technology to facilitate ordinary citizens in accessing government departments and agencies for obtaining relief for their problems in transparent and judicious ways, and will involve review and simplification of existing rules and regulations, delegation of adequate powers to staff interacting with ordinary citizens, with full monitoring and accountability.

Dr Hussain outlined the structure and functioning of the Commission itself. The Commission will consist of six independent members and three ex-officio members from different provinces. The supervision and guidance of the Commission will be through a High Powered Steering Committee (HPSC) co-chaired by the President of Pakistan and other senior officials. The HPSC will also be responsible for approving the recommendations of the NCGR and monitoring their implementation. The Commission will work in a consultative/participatory manner and its recommendations will be based on extensive and in-depth review of existing research and documentation on the subject.

Dr Ishrat Hussain concluded that the Commission is unique in its coverage of all tiers of the Government in an integrated manner; in its approach to not carry out any primary research; the empowerment of HPSC that ensures speedy and effective decision-making; continuous monitoring and evaluation of reforms. He cautioned that the main risk lay in the actions proposed by the Commission being stalled, postponed, delayed or not implemented: he said the Commission would try to avert this by building consensus amongst major stakeholders by creating win-win outcomes.

Discussion

The discussion endorsed the rationale for and the results of the first generation reforms. The most essential ingredient for the success of the reforms process was noted to be the existence of strong political will for implementation and continuity. Development partners joined the Government in urging the implementation and consolidation of second-generation reforms, including building short to medium term capacity, institutional strengthening and developing effective mitigation strategies. They also identified a number of issues for future consideration: employment reforms to reduce unemployment, providing direction for industrial development by linking small and large scale industries, and tackling asset disparity.

The Government was urged to decide whether it wanted to promote a capital goods industry and, if so, should have a consistent approach to the SME sector. The Government reiterated its commitment to reforms for diversifying and tapping the potential of SMEs by ensuring access to large scale financing, access to skills and technology, and so on.

In response to a query about privatization of the Women's Bank, Dr Akhtar clarified that the Government is seeking to bring about strategic privatization so that women's access to credit is enhanced and supply and financing facilities are improved. Stock market equity and debt market, long term financing facility, adequate compensation and incentives for civil servants, market development, training and microfinance for poor women were noted to be important priorities for the Government.

Civil service reform was discussed and the need to make it a performance-oriented and effective workforce. The Government emphasized that it was working on an appropriate placement policy for fresh entrants and an adequate compensation and incentives structure for quality professionals.

It was suggested that the process for Government Reforms (NCGR) could benefit from the MDGs experience and a greater degree of specificity should be built into the process. There should be regular periodic assessments (based on literature review and research) to ensure it is responsive to the ordinary citizens of Pakistan. The Government noted that the reform process would be based on a highly consultative process and will also include open public hearings so that the citizens' voices are heard.

VIII: Improving Aid Effectiveness through Implementation of the Paris Declaration

Background

Pakistan has a large number of development partners supporting its efforts to bring about reform, promote economic growth, poverty reduction and development. Given the large number of programs, alignment and harmonization of donor assistance could yield considerable benefits. Mutual ownership of development strategies and managing for results can also help achieve better development outcomes.

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

The PDF session ‘Improving Aid Effectiveness through Implementation of the Paris Declaration’ represented the first effort at debate on aid harmonization in Pakistan. The session aimed to look at modalities for donor assistance and operationalization of the commitments made in the Paris Declaration for harmonization, alignment, and so on.

Session VIII ‘Improving Aid Effectiveness through Implementation of the Paris Declaration’ was chaired by the Minister of State for Economic Affairs Ms. Hina Rabbani Khar. Panel interventions were by leading representatives of the major development partners: Mr. Soe Lin, Harmonization Unit, World Bank; Mr. Haoliang Xu, Country Director Asia, UNDP; Mr. Kazuo Kodama, Deputy Director-General of the Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan; Mr. Peter Fedon, Country Director, Asian Development Bank; Mr. Jonathan Addleton, Mission Director, USAID; and Ms Charlotte Seymour-Smith, Director Asia, DFID.

Speaker/Panel Interventions

Mr Soe Lin of the World Bank’s Harmonization Unit described the events that led to the Paris Declaration. He reported a growing consensus in the world about the benefits of the Declaration, with twenty countries having initiated aid effectiveness practices. Countries are using the measures in the Paris Declaration as a menu of activities from which to choose those that best suit their situations.

Turning to Pakistan, he noted that aid constitutes a small portion of Pakistan’s finances [2% of GDP, and 5-6% of government spending], but said it would still benefit from implementation of the Paris Declaration. Pointing to the small budgetary allocations for achievement of the MDGs, Mr Lin said implementation of the Paris Declaration would enable Pakistan to attract funding for the MDGs – a cause donors are very receptive to. By 2010, OECD aid is to increase by 50% to 128 billion dollars. Pakistan should make its own aid effectiveness agenda.

80-90% of the aid Pakistan receives comes from a handful of donors: multilaterals alone contribute 60-70%. Mr Lin predicted that if the big banks worked towards alignment, this could yield excellent results – particularly if like-minded bilaterals joined in. Mr Lin said the World Bank is willing to collaborate and support Pakistan on this issue, and would work with other development partners under Government leadership. It would also provide expert assistance to move the agenda forward.

Mr. Haoliang Xu of UNDP reported that under the informal Poverty Reduction Group some harmonization activities have already been initiated. He gave a brief overview of the findings of a recent study commissioned jointly by donors. Contrary to the view that aid effectiveness is only relevant to poorer countries, the study found it would be equally beneficial in Pakistan. It identified two issues in implementation: leadership both on the Government side and donors' side (the latter being fragmented) as well as issues of coherence and how donors align themselves with the Government's plans.

Mr Xu stressed the need for an institutional set-up to allow serious policy dialogue. While the PDF is a good forum for discussion, it has no follow-up mechanism. Moreover, participation is needed by all levels of government as most sectors that donors support are managed by provincial and local governments. Hence he called for dedicated capacity within the Economic Affairs Division (EAD). To donors, Mr Xu stressed the need to follow up on the Poverty Reduction Working Group, try to have joint missions, align aid with the PRSP, consider Sector Wide Approaches (SWAs), and alignment with local procedures.

Mr. Kazuo Kodama of the Japanese Foreign Ministry, said that aid effectiveness is basically process management of aid to make it more efficient and effective. Implementing the Paris Declaration would reduce the transaction cost of aid for Pakistan, and help it work towards the MDGs. He commended Pakistan for showing ownership by organizing the PDF, and for its responsibility in repaying loans.

Mr Kodama stated that Japan's country assistance for Pakistan is aligned with the PRSP: this and earthquake relief are examples of Japan's alignment and harmonization efforts. He welcomed the Prime Minister's directive to undertake EIAs for all projects, as it gave Japan more confidence in local procedures. But he added that Pakistan should work towards managing and auditing funds independently. Finally, he reported that a joint donor workshop to be held in Manila will take the aid effectiveness agenda forward, and reiterated that Japan is committed to fulfilling its obligations.

Dr. Peter Fedon, ADB Country Director started by stating what has already been achieved: the PRSP and MTDF are good signs of ownership by the Government; donors have tried to harmonize aid; multi-year programs have been formulated after a consultation process involving all tiers of government in Pakistan; for mutual accountability, EAD initiated earthquake-related monitoring – this can be extended to other areas. For harmonization, Dr Fedon said ADB had suggested a lead partner initiative but other donors were unenthusiastic. Looking ahead, he called for a thorough analysis of capacity needs and how to meet these – something donors could take responsibility for; and for a more effective division of labour among donors. If the World Bank and ADB could agree to work together, he predicted other donors would join in. On the Government side, he stressed the need for participation at all levels, with some leader/champion from the top echelons.

Mr. Jonathan Addleton said USAID welcomes the aid effectiveness initiative, noting that is inefficient for donors to duplicate assessments, etc. He cited one efficiency measure already implemented by USAID, whereby all final documents have to be of 10 pages or less to reduce paperwork. He explained that USAID works in five focus areas, which are in line with the PDF, and uses government documents for planning. He reiterated USAID's commitment to the Paris declaration.

Ms. Charlotte Seymour-Smith, Director Asia, DFID congratulated Pakistan on the response to the earthquake, and categorized this as also being process management for aid. She stressed that as long as aid is relevant, aid effectiveness is relevant – though the relevance will vary from country to country. In the Asia 2015 Conference some countries showed a lot of interest in the Paris Declaration. Noting that some donor transaction cost at this point will help save much more to be spent downstream as aid, Ms Seymour-Smith said DFID wanted leadership from Pakistan on a roadmap for implementation of the Paris Declaration. DFID could support implementation through budgetary assistance and joint programs with multi-laterals.

Discussion

The wide-ranging discussion covered several issues related to aid effectiveness, donor priorities and initiatives, and general steps needed to promote development in Pakistan. With regard to the latter, it was noted that nothing had been said on population control – whilst treating symptoms, causes had to be addressed too. In a debate on how aid works, some noted the fickleness of aid, to which it was pointed out that donors are constrained from making long-term commitments by the fact that donor governments are time-bound. There was also a query about standards of disclosure for donors.

On aid effectiveness, there was a call for academic papers from 'outsiders' on the topic. It was noted that currently small donors have a bigger stake in aid effectiveness than larger ones: the hope was expressed that large donors would take it as seriously. Eradication of polio in Pakistan was highlighted as an achievement resulting from joint donor-Government effort. Development partners called for regular and structured dialogue with Government – something that would also help mutual accountability. A development assistance database was described as a good initiative that could improve outcomes as well as disclosure.

In her concluding remarks, **Ms Hina Rabbani Khar, Minister of State for Economic Affairs**, responded to some of the points raised in the discussion. She reported that two local academics had already been invited to work on these issues. She noted that everyone has their own transparency criteria, but said these should also be harmonized.

The Minister acknowledged that the Government had to take the lead in promoting aid effectiveness. As an approach to this, she recommended identifying the end goal and then working back from that in small steps – stressing that it was better to aim high than low. Conceding, however, that the lowest common denominator might have to be applied for aid effectiveness, she urged core competencies to be emphasized and comparative advantage realized. She also pointed out that allocating resources for joint programming and monitoring would yield long-term dividends. Focusing on capacity-building, Ms Khar said

devolution was a good avenue for this, but stressed that a piece-meal approach would not work: a broader-based institutionalized approach was needed.

The Minister highlighted the fact that spending in the social sectors has increased: the MTDF and PRSP are owned through MTBF. However, she said alignment of aid is an issue. Firstly, all aid is not reported in the budget - especially when it is spent outside the public sector; and secondly, some sectors are over-emphasized (e.g. girls' primary enrollment) taking attention away from other critical areas. Pointing out that systems are strengthened through usage, she encouraged donors to work through the Government's systems.

Concluding Session

The Concluding Session of the 2006 Pakistan Development Forum had prepared statements by a number of donor agency representatives. It was chaired by Dr Salman Shah, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics.

In his concluding remarks Mr John Wall, Country Director World Bank, acknowledged that Pakistan's economic situation had improved in recent years but said the country now faced the 'problems of success'. Key among these was ensuring that supply (including domestic production capacity) met demand: he warned that unless financial macro-balance was maintained growth would not be sustainable. Focusing on the PDF 2006 theme of competitiveness, Mr Wall identified lack of infrastructure and power as potential constraints on growth. Finally, noting that the underlying goal of growth was poverty reduction, he noted the gap between commitments for service delivery and actual provision. Mr Wall urged that, as well as government, citizens themselves should mobilize to fill the gap.

The statement on behalf of the Government of Canada listed support for devolution, improving the quality and delivery of basic social services, and promoting gender equality as Canada's main objectives in Pakistan. Improvements in human development indicators were acknowledged, but concern was expressed about low social sector spending, particularly in health and education. The Government was urged to allocate more resources. Similarly, some progress in gender equality was acknowledged, but the Government was urged to take a stronger lead in promoting this. Canada offered to support the 2007 elections, e.g. through voter education and improved registration. Finally, the statement noted Canada's commitment to make its development efforts more 'Paris-friendly', and that future aid to Pakistan was conditional on transparency and accountability standards being met.

The statement by the Government of Japan summarized the main threads of the 2005 PDF discussions: achieving growth through improving competitiveness and strengthening the private sector; ensuring pro-poor growth and addressing inequality in Pakistani society; improving monitoring capacity; and undertaking second-generation reforms. Describing these as extremely important, the statement reiterated Japan's commitment to supporting the Government and people of Pakistan.

The local Presidency of the European Union made a statement on behalf of E.U Member State welcoming the emphasis on private sector development in PDF – 2006. E.U expressed appreciation to the Government of Pakistan for achieving macro-economic stability over the past few years and stressed the need for ensuring that the impressive growth and development leads to poverty reduction and the benefits of growth and development are distributed to the entire country. The E.U also encouraged Pakistan to balance economic growth with environmental sustainability specially in the areas of Water Resources Management and Forestry. E.U invited attention to the need for continued decentralization of decision-making and resource allocation through the devolution process to local civil administration at Provincial and District levels and the importance of continued progress on poverty reduction. E.U reiterated its commitment to support the Paris Declaration principles on Aid Effectiveness and urged the Government to develop a road map to progress harmonization and alignment and to enhance mutual accountability as defined in Paris

Declaration. The E.U emphasized the respect for human rights and support to Government of Pakistan in its intention to hold free and fair elections in 2007. The E.U congratulated the Government on its successful and comprehensive response to the October 2005 earthquake and reiterated its commitment to provide long-term support to the Government of Pakistan in its reconstruction efforts.

On behalf of Government of Pakistan, Dr. Salman Shah thanked the development partners for their active participation and support in making PDF-2006 an interactive and enriched discourse. He also thanked other delegates from the government, private sector, civil society for their active participation, and to the speakers for providing valuable insight into Pakistan's development issues, challenges and opportunities.

ANNEXES

ANNEX 1: AGENDA

May 10, 2006 DAY 1

Session I

9:00 - 10:30

Inaugural Session

Venue	Jinnah Convention Centre, Islamabad
Session Chair	H.E. Shaukat Aziz, Prime Minister of Pakistan
09:00 - 09:05	National Anthem
09:05 - 09:10	Recitation from the Holy Quran
09:10 - 09:20	Address by Dr. Salman Shah Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics
09:20 - 09:30	Dr. Ahmed Mohammed Ali President, Islamic Development Bank
09:30 - 09:40	Address by Mr. Praful C. Patel Vice President, South Asia, World Bank
09:40 - 09:50	Address by Mr. Juan Miranda Director General, Central and West Asia Department Asian Development Bank
09:50 - 10:10	Address by H.E. Shaukat Aziz, Prime Minister of Pakistan.
10:10 - 10:30	Tea

Session II

10:30 -12:15

Improving Pakistan's Competitiveness through Dynamism of the Private Sector

Venue	Jinnah Convention Centre, Islamabad
Session Chair	Address by Dr. Salman Shah Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics
Session Objective:	Assessing Pakistan's enabling investment and regulatory climate - Opportunities and Challenges; industrial and agricultural competitiveness; globalization and its impact on domestic markets; export strategy; Analyzing the potential and contribution of private sector - the success, challenges and opportunities; the privatization agenda
Key Issues/ Questions	What are the major issues, challenges and achievements viz -a -viz competitiveness of the Pakistani industry in the domestic and global market place? Have Government measures (e.g. tax reforms, regulation, investment promotion, etc) helped the competitiveness of Pakistani industry and improved the investment climate in Pakistan? What more needs to be done? What initiatives have - and can - be taken to improve industrial and agricultural competitiveness? What challenges are posed by globalization? Has privatization been effective, and how can it be furthered?
Expectations	Good understanding of where Pakistan stands in terms of encouraging investment, privatization and improving agricultural and industrial competitiveness; mapping of major challenges and strategies to address these.

Key Note Speech	
10:30 -10:50	Dr. Michael Enright Sun Hung Kai Professor of Business Administration, University of Hong Kong
Panelists	
10:50 -11:15	Mr. Tariq Saigol Chairman Koh -i -Noor Maple Group Mr. Saquib Shirazi Chief Executive Officer, Atlas Honda Pvt. Ltd. Mr. Tariq Rangoonwala Chairman International Chamber of Commerce (ICC) Mr. Rashid Farouqi Advisor Ministry of Agriculture
11:15 -12:15	Moderated Discussion
Session III	
12:00 -13:30	Unleashing potential of the SME Sector with a focus on productivity improvement
Venue	Jinnah Convention Centre, Islamabad
Session Chair	Mr. Altaf Saleem Chairman Earthquake Rehabilitation & Reconstruction Authority (ERRA)
Session Objective:	Evaluating role and contribution of Small and Medium Enterprises in Pakistan's economic and industrial development and assessing government's efforts towards improving productivity.
Key Issues/Questions	What contribution has the SME sector made to improving Pakistan's productivity - and how much further potential is there? How have Government measures facilitated this? What more needs to be done? How can donors support this?
Expectations	Good understanding of the current status of the SME sector in Pakistan; mapping of its further potential to promote productivity, and measures needed to realize this.
Panelists	
12:15 -12:30	Mr. Avais Mazhar Hussain Chief Executive Angoora Textile Ltd. Mr. Shahab Khawaja Chairman SMEDA Mr. Tawfiq Hussein Deputy Governor State Bank of Pakistan Dr. Warren Weinstein Chief of Party, Pakistan Initiative for Strategic Development and Competitiveness
12:30 -13:30	Moderated Discussion
13:30 -14:30	Lunch
Session IV	
14:30 -16:15	MDG and Human Development
Venue	Jinnah Convention Centre, Islamabad
Session Chair	Lt.Gen (Rtd) Javed Ashraf Federal Minister for Education
Session Objective:	Assessing Pakistan's performance against poverty and human development, mapping challenges and requirements
Key Issues/Questions	Pakistan is experiencing a period of high macro -economic growth, accompanied by improved indicators on UNDP HDI index and poverty alleviation. What can be

done to make growth more equitable? What is the progress and key challenges in delivering of quality education (formal and non -formal) for all in Pakistan? How can the role of public -private partnerships be enhanced to increase quality and coverage? What are the measures adopted by the Government to improve primary and secondary healthcare services in Pakistan? What are the key institutional and resource constraints in ensuring affordable and quality health services to all in Pakistan? How is the civil society contributing to Government's efforts towards human development and poverty alleviation?

Expected Outcomes Identification of areas where Pakistan is facing major challenges in human development; identification of key constraints and strategies to overcome these; specifically, role that donors can play.

Key Note Speech
14:30 -14:45 Dr. Nasim Ashraf Chairperson National Commission for Human Development

Panelists
14:45 -15:15 Mr. Jan VandeMoortele UNDP Resident Representative
Dr.Pervez Tahir Chief Economist / Member Planning & Development Division
Ms. Shahnaz Wazir Ali Executive Director, Pakistan Centre for Philanthropy

15:30 -16:15 Moderated Discussion

16:15 -16:30 Tea

Session V

16:30 -18:00
Venue **Environmental Sustainability**
Jinnah Convention Centre, Islamabad

Session Chair Maj (Retd) Tahir Iqbal Federal Minister for Kashmir Affairs and Northern Areas

Session Objective: Assessing Pakistan's progress, requirements, opportunities and challenges for ensuring environmental sustainability and development

Key Issues/Questions: Assessment of the current environmental situation in Pakistan; future plans (policies, strategies and action plans) for integrating environmental concerns; identification of key factors responsible for environmental degradation; implications on poverty, livelihoods security and vulnerability; environmental legislation; impact of climate change and environmental disasters; compliance to multilateral environmental agreements (MEAs); the role of the private sector vis a vis environmental management and sustainable businesses; potential of the environmental goods and services sector; public private partnerships for environmental sustainability; role of the Government in supporting the private sector and ensuring that growth does not damage natural resources, public health, or consumer rights; sector specific and cross sectoral environmental challenges and opportunities.

Expectations: Identification of the main gaps in ensuring environmental sustainability, the challenges in filling those gaps, and a set of recommendations to provide an effective way of ensuring environmental sustainability. Also, identification of key strategies to move forward, and the roles to be played by Government, donors, private sector and civil society.

Key Note Speech
16:30 -16:45 Mr. Syed Babar Ali Advisor, Packages Ltd. Lahore and Vice -President Emeritus WWF International

Panelists
16:45 -17:15 Dr. Tariq Banuri Director Stockholm Environment Institute -Asia

	Dr. Pervez Hasan Hassan & Hassan Associates
	Mr. Asif Shuja Director General Pakistan Environmental Protection Agency
17:15 -18:00	Moderated Discussion
Session V (a) 16:30 -18:00	Social Protection
Venue	Jinnah Convention Centre, Islamabad
Session Chair	Mrs. Zubaida Jalal Minister for Social Welfare and Special Education
Session Objective:	Evaluating Pakistan's experience in furthering the social safety nets to the wider citizenry , the challenges and opportunities ahead
Key Note Speech 16:30 -16:45	What approach is the Government taking to social protection? How effective are social protection measures in Pakistan? Are they reaching all those who need support? What support are civil society groups and donors providing? How can targeting be improved?
Expectations	Identification of the main gaps in social protection measures in Pakistan and the challenges in filling those gaps. Also, identification of key strategies to move forward, and the roles to be played by Government, donors and civil society groups.
Key Note Speech 16:30 -16:45	Mr. Kalanidi Subbarao Former Lead Economist - Social Protection, World Bank
Panelists 16:45 -17:15	Dr. A.R. Kamal Ex - Director Pakistan Institute of Development Economics (PIDE) Dr. Faisal Bari Executive Director Mahbub -ul -Haq Center
17:15 -18:00	Moderated Discussion

May 11, 2006 DAY 2

Session VI
9:00 – 10:30
Venue

Infrastructure – Energy, Water, North-South Corridor
Jinnah Convention Centre, Islamabad

Session Chair

Mr. Liaqat Ali Jatoi Federal Minister for Water and Power

Session Objective:

Assessing the Infrastructure requirements of Pakistan's growing economy, opportunities, resource requirements and challenges

Key Issues/Questions:

Is the current policy environment giving the right incentives to attract private sector investment in developing indigenous energy resources to fulfill Pakistan's future energy requirements? What further measures/incentives are required to obtain the planned energy mix and production? What are costs and potential of developing water resources versus loss reduction/demand management? How should Pakistan prioritize its investment on expansion and efficient utilization of the current water resources? What opportunities does the trans-national trade corridor offer for improving trade and generating growth? What are the

infrastructure, services and legislation/regulation needed to realizing this potential? What role can the private sector play in improving Pakistan's infrastructure?

Expectations: Assessment of Pakistan's progress towards energy and water security? Exploring the potential of the trans-national trade corridor; identifying the infrastructure and non-infrastructure requirements for realizing its potential. Prioritization of next steps; and, identification of strategies and resources to meet energy, water and other infrastructure needs.

Presenters
09:00-10:00

Mr. Ashfaq Mahmood Secretary Water & Power

Mr. Ahmad Waqar Secretary Petroleum and Natural Resources

Dr. Asad Shah Member Infrastructure, Planning Commission

10:00-11:00

Moderated Discussion

11:00-11:30

Tea Break

Session VI (a)

09:00-11:00

Devolution: Progress, Future Priorities and Challenges

Venue

Jinnah Convention Centre, Islamabad

Session Chair

Mr. Danyal Aziz Chairman National Reconstruction Bureau

Session Objective

Analyzing Pakistan's experience of implementing devolution reforms and its impact on citizen empowerment, accountability and service delivery, as well as discussing challenges and opportunities

Key Issues/Questions

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

Expectations

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

Panelists

09:30-11:00

Dr. Ali Cheema Associate Professor LUMS

Mr. Yusuf Ayub Nazim Haripur District

Mr. Ashraf Wasti Member Provincial Finance Commission, Sind

Mr. Yusuf Khan CEO DTCE

11:00-11:30

Moderated Discussion

Tea Break

Session VII

11:30-13:30

Second Generation Reforms

Venue

Jinnah Convention Centre, Islamabad

Session Chair

Dr. Shamshad Akhtar Governor State Bank of Pakistan

Session Objective	Evaluating Pakistan's progress on the second generation reforms, the challenges and impediments.
Key Issues/Questions	What is the progress in implementation of second generation reforms (including financial management, industrial and agricultural improvements, private sector strengthening, further civil service, legal and justice sector reforms)? What strategies is the Government following? What are the key constraints and challenges it faces? How can these be overcome? What are the reform priorities?
Expectations	Overview of the status of implementation of second generation reforms (including a clear understanding of what these encompass); identification of key challenges and constraints; and strategies to address these.
Key Note Speech 14:30-14:45	Mr. Omar Ayub Minister of State for Finance
Panelists 11:45-12:15	Dr. Shamshad Akhtar Governor State Bank of Pakistan
	Mr. Razi-ur- Rehman Khan Chairperson Securities and Exchange Commission of Pakistan (SECP)
	Dr. Ishrat Husain (Chairman National Commission for Government Reforms)
12:15-13:30	Moderated Discussion
13:30-14:30	Tea

Session VIII
14:30-16:15

Venue **Improving Aid Effectiveness through implementation of Paris Declaration**
Jinnah Convention Centre, Islamabad

Session Chair Hina Rabbani Khar Minister of State for Economic Affairs and Statistics

Session Objective Examining operationalization of commitments on the implementation of Paris Declaration on Aid Effectiveness in Pakistan

Key Issues/Questions What steps can Government and donors take to improve aid effectiveness? To what extent have donors aligned their programs behind key policy documents (PRSP, MTRF, MTBF etc) and what are the challenges and issues in aligning with national planning instruments, strategies and policies? What is needed to ensure Paris Declaration commitments are implemented?

Expectations Improved mutual understanding between government and donors on how Paris Declaration commitments fit with key national policies and generation of a road-map for operationalization of Paris Declaration in Pakistan; menu of alignment and harmonization measures to be implemented over the year.

Panelists
14:45-15:15

Mr. Kazuo Kodama Deputy Director-General of the Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan

Mr. Soe Lin (Harmonization Unit, World Bank)

Mr. Peter Fedon Resident Representative ADB

Ms. Charlotte Seymour-Smith Director Asia DFID

Mr. Haoliang Xu Country Director UNDP

	Mr. Jonathan Addleton Mission Director USAID
15:15-16:15	Moderated Discussion
Session IX	
16:15-17:00	Closing Remarks
Venue	Jinnah Convention Centre, Islamabad
Session Chair	Dr. Salman Shah Advisor to Prime Minister on Finance, Economic Affairs, Revenue & Statistics
Theme	Where do we go from here?
16:15-17:15	Statements by Development Partners
17:15-17:45	Wrap-up by Dr. Salman Shah Advisor to Prime Minister on Finance, Economic Affairs, Revenue & Statistics
17:15	Press Conference

ANNEX 2: INAUGURAL SESSION ADDRESSES³

1. Address by **Dr Salman Shah**, Advisor to the Prime Minister on Finance, Revenue, Economic Affairs and Statistics
2. Address by **Dr Ahmed Mohammed Ali**, President Islamic Development Bank
3. Address by **Mr Praful C. Patel**, Vice President South Asia, World Bank
4. Address by **Mr Juan Miranda**, Director General Central and West Asia Department, Asian Development Bank
5. Address by **Mr Shaukat Aziz**, Prime Minister of Pakistan.

³ Available at <http://www.pakistan.gov.pk/PDF/index.jsp>

ANNEX 3: PRESENTATIONS/STATEMENTS⁴

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

1. Dr Michael Enright: *Improving Competitiveness through Private Sector Dynamism*
2. Mr Saquib Sherazi: *Investment Climate in Pakistan from a Private Sector Point of View*
3. Mr Tariq Rangoonwalla: *A More Fundamental Out-of-the-Box Approach*

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

4. Mr Shahab Khawaja: (paper)
5. Mr Shahab Khawaja: (presentation)

Session IV: MDGs and Human Development

6. Dr Nasim Ashraf: *MDGs and Human Development*
7. Dr Pervez Tahir
8. Ms Shahnaz Wazir Ali: *Civil Society: Role in Social Development in Pakistan*

Session V: Environmental Sustainability

9. Mr Asif Shujah: *Environmental Sustainability*

Session V(a): Social Protection

10. Mr Kalanidi Subbarao: *Strengthening Social Protection in Pakistan: Challenges and Opportunities*
11. Dr A. R. Kemal: *Social Protection: Role of Micro-Finance*
12. Dr Faisal Bari: *Social Protection*

Session VI: Infrastructure – Energy, Water, National Trade Corridor

13. Mr Ahmad Waqar: *Oil and Gas Sector: Status and Strategy*
14. Mr Ashfaq Mahmood: *Pakistan Power Generation Policy for IPPs*
15. Mr Ashfaq Mahmood: *Energy Security Plan*
16. Mr Ashfaq Mahmood: *Water Security*
17. Dr Asad Shah: *National Trade Corridor*

Session VI(a): Devolution: Progress, Future Priorities and Challenges

18. Mr Ashraf Wasti: *Fiscal Decentralization*
19. District Nazim Yusuf Ayub

⁴ Available at <http://www.pakistan.gov.pk/PDF/index.jsp>

20. Mr Yusuf Khan: *'Community Empowerment Under Devolution: Progress, Challenges and the Way Forward'*

Session VII: Second-Generation Reforms

21. Mr Omar Ayub Khan
22. Dr Ishrat Hussain: *'National Commission for Government Reforms'*

Session VIII: Improving Aid Effectiveness through Implementation of the Paris Declaration'

23. Mr Soe Lin, Harmonization Unit, World Bank
24. Mr Haoliang Xu, Country Director UNDP
25. Mr Kazuo Kodama, Deputy Director General of the Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan
26. Dr Peter Fedon, Resident Representative ADB
27. Mr Jonathon Addleton, Mission Director USAID
28. Ms Charlotte Seymour-Smith, Director Asia DFID

ANNEX 4: CHAIR/SPEAKER PROFILES⁵

⁵ Available at <http://www.pakistan.gov.pk/PDF/index.jsp>

Session II: Improving Pakistan 's Competitiveness through Dynamism of the Private Sector – Chair/Speakers' Profiles

Jehangir Khan Tareen (Chair)

Mr. Tareen is Federal Minister for Industries, Production and Special Initiatives. He began his political career in 2002 when he was elected as a member of the National Assembly of Pakistan. He has worked as Advisor to the Chief Minister, Punjab on Agriculture and New Initiatives, a Lecturer in University of Punjab and a Banker (Grindlays Bank Lahore). He developed and now manages a 2,500-acre mango and cotton farm in Lodhran with the most modern farming methods. Mr Tareen holds an MBA from the University of North Carolina.

Michael Enright (Keynote Speaker)

Dr Michael Enright is a leading expert on competitiveness, regional economic development, and international business strategy. Dr. Enright joined the University of Hong Kong as Sun Hung Kai Professor of Business Administration, after serving six years as a professor at the Harvard Business School. Professor Enright received his M.B.A. (with distinction), and his Ph.D. from Harvard University. He presently directs the Asia-Pacific Competitiveness Program at the Hong Kong Institute of Economics and Business Strategy and was a Co-Founder of The Competitiveness Institute, a global professional body with over 400 members in more than 40 countries.

Tariq Saigol (Panelist)

Mr. Tariq Sayeed Saigol is Chairman of Kohinoor Maple Leaf Group, which has interests in textiles, energy and cement manufacturing. He has been Chairman of the All Pakistan Textile Mills Association and President of Lahore Chamber of Commerce and Industry, and is currently Chairman, All Pakistan Cement Manufacturers Association. He is also the author of 'Textile Vision 2005', which was adopted by the Government in the year 2000.

Saqib Sherazi (Panelist)

Mr. Saqib Sherazi is the CEO Atlas Honda Ltd. He has worked extensively in Pakistan as well as abroad. He is the Director of Harvard Business School Alumni Association and a member of: Privatization Commission of Pakistan and board of trustees and board of governors, Lahore University of Management Sciences (LUMS). He received his BSc in economics from Wharton School of Finance and MBA from Harvard Business School.

Tariq Rangoonwala (Panelist)

Mr. Tariq Rangoonwala is the Chairman of the Rangoonwala Group of Companies in Pakistan . He is the Chairman of the International Chamber of Commerce - Pakistan (its National Committee in Pakistan) and a member of the ICC's Executive Board in Paris as well as a member of the Business Advisory Council of UNESCAP, the Investment Advisory Committee of UNCTAD. He is currently also the Chairman of the Duke of Edinburgh's International Award Trust Pakistan as well as a member of its Regional Board.

Rashid Farouqi (Panelist)

Dr. Rashid Farouqi is the Senior Policy Advisor, Ministry of Food and Agriculture. He is a former lead economist of the World Bank.

Session III: Unleashing Potential of the SME Sector with a Focus on Productivity Improvement – Chair/Speakers’ Profiles

Altaf Saleem (Chair)

Mr. Altaf Saleem is Chairman of the Earthquake Rehabilitation & Reconstruction Authority (ERRA) and also the Chairman NAVTEC. He has been granted the status of Federal Minister for both the positions. He is also Chairman of Pakistan Industrial Credit and Investment Corporation and Sui Gas Pipelines Ltd. He is the Founder-Governor of the National Management Foundation and a trustee of LUMS. He founded a trust which runs a teachers training institute in rural Punjab and is actively involved in Red Crescent. Mr. Altaf is also the president of the World Wide Fund for Nature-Pakistan.

Awais Mazhar Hussain (Panelist)

Mr. Awais Mazhar Hussain is the CEO of a vertically integrated knitwear and woven apparel manufacturer /exporter. He is also Chairman of the Board of Directors of Garment City Lahore. He has undertaken the Program for Management Development at the Graduate School of Business Administration, Harvard University and holds a Master's degree in Economics from Punjab University, Lahore.

Shahab Khawaja (Panelist)

Mr. Shahab Khawaja is currently the Chairman of SMEDA, having been in public service for 31 years and served in various capacities. Some of his recent assignments include: Additional Secretary M/o Population Welfare, Secretary Livestock Department, Secretary Agriculture Department and Commissioner Afghan refugees for the Government of Punjab and Joint Secretary Economic Affairs Division.

Taufiq Hussein (Panelist)

Mr. Taufiq A. Hussein is Deputy Governor of the State Bank of Pakistan, and until recently was the Senior Director & Country Manager (Pakistan) of American Express Bank Limited and Director, First International Investment Bank, Pakistan. Mr. Hussein held honorary positions as President, American Business Council of Pakistan; Member, Board of Governors, Lahore University of Management Sciences; and Member, Banking Sub-Committee, Overseas Chamber of Commerce and Industry, Karachi.

Warren Weinstein (Panelist)

Dr Warren Weinstein is the Chief of Party, Pakistan Institute for Strategic Development and Competitiveness. He has a broad background in development in transitional and emerging economies, which includes supervision of field projects, supervision of development programs and grants. Dr Weinstein has extensive experience of, among others: participatory and community based development, competitiveness, SMEs and micro-enterprise development and finance, business development, agribusiness, tourism, infrastructure development (water, communications, etc.), privatization, governance, enabling environment, and training/capacity building. He received his Masters in International Relations and PhD in International Law & Economics from Columbia University, New York.

Session IV: MDGs and Human Development – Chair/Speakers’ Profiles

Javed Ashraf (Chair)

Lt-Gen (Rtd) Javed Ashraf is the Federal Minister for Education. His previous postings include: Federal Secretary for Science and Technology, Federal Secretary & Chairman Pakistan Railways; Federal Minister for Communication and Railways; Chairman Senate Standing Committee for Defence Production and Aviation; and Director General of Military Intelligence. He has been awarded Hilal-I-Imtiaz and Sitara-I-Basalat (twice).

Nasim Ashraf (Keynote Speaker)

Dr. Nasim Ashraf is the Minister of State and Chairman for National Commission for Human Development. He served as the team leader for the President's Task Force on Human Development. Dr. Ashraf has been a community activist and a member of the Association of Pakistani Physicians of North America. He designed and implemented a highly successful model of primary health care to reduce disease and lower death rates in developing countries.

Jan Vande Moortele (Panelist)

Mr. Jan Vande Moortele is the UNDP Resident Representative and UN Resident Coordinator in Pakistan . Until mid-2005, he was Director of UNDP's poverty practice in New York. Holding a degree in Development Economics, his work has mostly focused on equity and effectiveness of social and economic policy, public finance and labour markets. Mr Vande Moortele has held positions with UNICEF and ILO.

Pervez Tahir (Panelist)

Dr. Pervez Tahir is the senior most officer of the Economists Group and the Chief Economist/ Member Planning & Development Division. Dr. Tahir has served in various capacities in the Ministry of Finance, Planning and Development Division and Economic Affairs Division. Dr. Pervez holds a Ph.D in Economics from Cambridge University, and an M.A in Economics from the University of Colorado at Boulder, USA . He has also been a lecturer in Economics at Government College, Lahore and visiting faculty at the Quaid-e - Azam University, Islamabad.

Shahnaz Wazir Ali (Panelist)

Ms. Shahnaz Wazir Ali has had a long and distinguished career in public service, primarily in the education sector. She spent 18 years in teaching and administrative positions in the private sector before serving as the Senior Education Specialist at the World Bank. One of her many achievements then was the development of The National Education Assessment system for measuring learning achievements in Pakistan . She has served twice on the Federal Cabinet -- as Minister of State for Education and as Special Assistant to the prime minister on social sectors.

Session V: Environmental Sustainability – Chair/Speakers' Profiles

Tahir Iqbal (Chair)

Major (Retd) Tahir Iqbal has served in the Pakistan Army for 24 years. From 2002 to 2004 he was the Minister of State (Incharge) for the Ministry of Environment, Local Government and Rural Development. In 2004, he was elevated as the Federal Minister for Environment. Major (retd) Iqbal has played an instrumental role in introducing new concepts such as catalytic converters for emission reductions and other interventions related to reduction in air and water pollution. He has also represented Pakistan at various international forums on the environment. He currently holds the portfolio of Federal Minister for Kashmir Affairs and Northern Areas (KANA).

Syed Babar Ali (Keynote Speaker)

Syed Babar Ali is one of Pakistan 's leading businessmen, an educationist and an active environmentalist. As an entrepreneur and industrialist, Syed Babar Ali set up Packages Limited – Nestle Pakistan Limited. He is Chairman of Sanofi-Aventis Pakistan Limited, Bayer CropScience Pakistan Limited, Siemens Pakistan Engineering Company Limited, Coca-Cola Beverages Pakistan Limited and Director of Unilever Pakistan Limited and Mitchell's Fruit Farms Limited. As an educationist, he envisioned and established Lahore University of Management Sciences (LUMS). He is Vice-President Emeritus, World Wide Fund for Nature International, Switzerland and also Pro-Chancellor, Lahore University of Management Sciences and CAO Reference Group, The World Bank, Washington.

Tariq J. Banuri (Panelist)

Dr. Tariq Banuri is the Director of the Asia Centre of the Stockholm Environment Institute. He has extensive experience in Pakistan of policy development, research work and organizing/leading multi-stakeholder participation. He was a leading member of a multi-stakeholder initiative to introduce pollution taxes in Pakistan. He has served on national as well as international policy development bodies and research networks, including the board of governors of Pakistan's central bank, Pakistan's Environmental Protection Council, the Steering Committee on Higher Education established by the President of Pakistan, and the Inter-governmental Panel on Climate Change (IPCC), in which he was a convening Lead Author.

Parvez Hasan (Panelist)

Dr Parvez Hassan is a dynamic environmentalist. Currently he is an advocate, Supreme Court and High Courts of Pakistan and also Chairman of: National Environmental Quality Standards Implementation Committee of the Federal Ministry of Environment, and member of the Working Group for the Five Year Plan 2005-10, the Working Group on Trade and Environment, and the National Committee on Environment, Conservation & Earth Sciences of the Federal Ministry of Science and Technology.

Asif Shuja (Panelist)

Mr. Asif Shuja is serving as Director General in the Ministry of Environment and is also head of the Pakistan Environmental Agency which is responsible for enforcement of environmental laws and policies in the country. Mr. Shuja is an engineer by training and obtained his Masters from Steven's Institute of Technology, USA. He has extensive experience of working in the manufacturing industry in Pakistan and abroad.

Session V(a): Social Protection – Chair/Speakers' Profiles

Zubaida Jalal (Chair)

Ms Zubaida Jalal is the Minister for Women's Development, Social Welfare and Special Education. Prior to this she served as Minister for Education in the Federal Cabinet. Ms. Jalal has extensive experience in the field of education: she established a Girls' Primary School in her native Mand, District Mekran, on a self-help basis. The school's good performance led to it being handed over to the Government of Balochistan. Ms Jalal has also worked as a volunteer with the Family Planning Association of Pakistan. She has traveled widely abroad to study primary education systems in other countries. She was an official delegate with the Pakistan Working Committee for the Fourth World Women's Conference.

Kalanidhi Subbarao (Keynote Speaker)

Kalanidhi Subbarao was until recently a lead economist in the Africa Region of the World Bank, responsible for social protection, poverty and vulnerability. He is currently a consultant on safety nets and social protection for Africa and South Asia Regions of the Bank. Prior to joining the Bank, he taught and conducted research at institutions in Delhi and Berkeley. He has published extensively on the subject of social protection. His recently completed work and current research interests include ageing and poverty in Africa, risk and vulnerability assessments, social protection of vulnerable children, safety net policy and program framework in post-disaster situations, and food aid and food security policies in South Asia and Africa. He has extensive operational experience in the design and implementation of safety nets in countries of Asia, Africa and Central Asia.

A. R. Kemal (Panelist)

Dr A. R. Kemal is the former Director of the Pakistan Institute of Development Economics (PIDE). He holds a PhD in economics from Manchester University, UK. He has held numerous posts in academia and government including: Joint Economic Advisor, Chief Economist of the Planning Commission, Editor of the *Pakistan Development Review*. He is currently working with the United Nations.

Faisal Bari (Panelist)

Dr Bari is Director of the Mehbub-UI-Haq Development Centre and Associate Professor of Economics at LUMS. A former Rhodes Scholar, Dr Bari received his PhD in economics from McGill University. His fields of research interest are Industrial Organization, Game Theory and Economic Development.

Session VI: Infrastructure – Energy, Water, National Trade Corridor Chair/Speakers' Profiles

Liaqat Ali Jatoi (Chair)

Mr. Liaqat Ali Jatoi is the Federal Minister for Water & Power. His political career started when he was elected as Member of the National Assembly of Pakistan from District Dadu Sindh. He has held numerous senior positions, including: Provincial Minister for Finance, Excise and Taxation, Government of Sindh; Member Provincial Assembly Sindh; Chief Minister of the Province of Sindh; and Federal Minister for Industries and Production.

Asad Shah

Dr. Asad Shah, Member Infrastructure, Planning Commission, has a doctorate in civil engineering from the University of Manitoba, Canada . He has over four decades of experience in broad-based development activities, mainly in infrastructure development. His positions with the Government include Chief in the Planning Commission, and posts in the Planning and Development Department, Government of Punjab. He has also worked extensively for the Asian Development Bank, with over 10 years in management positions such as Director General. Dr Shah has been a key contributor to the Medium Term Development Framework (2005-2010) and the ongoing work on the long-term strategic framework, Vision 2030.

Ashfaq Mahmood

Mr. Ashfaq Mahmood is currently the Secretary Ministry of Water and Power, but has served in several posts for the federal government of Pakistan . He played a major role in developing policies that brought private sector investment to the power sector, and placed Pakistan at the forefront of the worldwide trend towards privatization. He has also acted as the Government's principal counterpart for USAID's \$105 million Energy Planning and Development Project and led many delegations for negotiations of loans with multilateral and bilateral donors.

Ahmad Waqar

Mr. Ahmad Waqar is the Secretary, Petroleum and Natural Resources. He has held several senior level positions in the Federal Government and has extensive experience in privatization. He has also been the Deputy Auditor General and Member, Capital Development Authority. He holds an MBA from University of Bridgeport in USA .

Session VI(a): Devolution: Progress, Future Priorities and Challenges – Chair/Speakers' Profiles

Daniyal Aziz (Chair)

Mr. Daniyal Aziz is an MNA and Chairman of the National Reconstruction Bureau, Pakistan , and ex-officio chairman of the board of directors for the Devolution Trust for Community Empowerment. He holds BA and MA degrees from Boston University, USA . He has been a consultant to the Government of Pakistan and to various international programs focusing on local government and development. Mr Aziz was elected to the National Assembly in 2002, for the second time.

Dr. Ali Cheema (Panelist)

Dr Cheema is Associate Professor and Head of the Economics Department, School of Arts and Sciences, Lahore University of Management Sciences. Dr. Cheema joined LUMS in 1999 after completing his PhD in Economics from the University of Cambridge, England. Dr. Cheema's current research interests include; institutional and development economics, rent seeking theory, small firm growth, productivity analysis and industrial economics.

Yusuf Ayub (Panelist)

Yusuf Ayub is the District Nazim of Haripur: he was elected to the post in 2005 after defeating the incumbent Raja Amer Zaman. Yusuf Ayub is a grandson of Field Marshal Ayub Khan. He has served as Minister for Local Government in NWFP.

Ashraf Wasti (Panelist)

Ashraf Wasti holds a position as private, non-statutory member of the Sindh Provincial Finance Commission. Mr Wasti has an academic background, working with the Applied Economic Research Centre of Karachi University.

Yusuf Khan (Panelist)

Mr Yusuf Khan is Chief Executive Officer of the Devolution Trust for Community Empowerment (DTCE). The DTCE was established as a non-governmental organization by the Government of Pakistan through the National Reconstruction Bureau (NRB), to proactively promote the community participation elements of the Local Government Ordinance 2001. Mr Khan, a DMG officer, obtained a Master's in Development Studies from Cambridge. He has worked with IUCN and was later Director General of the Community Infrastructure Project in NWFP.

Session VII: Second-Generation Reform – Chair/Speakers' Profiles

Salman Shah (Chair)

Dr. Salman Shah is Adviser to the Prime Minister of Pakistan for Finance, Revenue, Economic Affairs and Statistics. He has been a key player in Pakistan's economic reform program, launched by the Government since 1999. He has been a Member of the Commission on Transformation of the Economy and a former chairman of the Privatization Commission. He has served on the Board of Governors of State Bank of Pakistan, PIA, Foundation University and the Bank of Punjab. Dr Shah holds a Ph.D. in Finance from Kelley School of Business Administration, Indiana University.

Omar Ayub (Keynote Speaker)

Mr Omar Ayub Khan is a Member of the National Assembly and is currently serving as the Minister of State for Finance. He is also a member of the Young Parliamentarians Forum (YPF), Pakistan. His professional experience includes serving as Chairman and Chief Executive Officer of software and business companies. Mr Ayub holds BBA and MBA degrees from George Washington University, U.S.A.

Razi-Ur-Rehman Khan (Panelist)

Mr Razi-ur-Rahman Khan is the Chairman of the Securities and Exchange Commission of Pakistan (SECP) and has extensive experience in the field of finance, banking corporate sector, mutual fund, brokerage investment and private equity investment. A chartered accountant by profession, he has worked in Pakistan in both private and public sectors.

Ishrat Husain (Panelist)

Dr. Ishrat Hussain is former governor of the State Bank of Pakistan . He actively participated in the conceptualization, formulation and implementation of a successful Economic Reform Programme for the country that has led to macroeconomic stabilization and resumption of economic growth. Dr. Ishrat is also responsible for the Financial Sector Reforms that strengthened the country's financial institutions, markets and infrastructure. He has had extensive working experience in Pakistan as well as abroad. He received his Ph D. in Economics from Boston University.

Session VIII: Improving Aid Effectiveness through Implementation of the Paris Declaration – Chair/Speakers' Profiles

Hina Rabbani Khar (Chair)

Ms. Hina Rabbani Khar is the Minister of State for Economic Affairs. She holds a BSc in Economics from LUMS and an MSc in Administration, from the University of Massachusetts.

Kazuo Kodama (Panelist)

Mr. Kodama is the Deputy Director General of the Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan . He has had a long an illustrious career in the foreign service of Japan . His previous positions include the Minister in Embassy of Japan in the United States and India . He holds degrees in Law from Tokyo University and a B.A.(Honours) in Politics, Philosophy and Economics from St.Edmond Hall College, University of Oxford.

Soe Lin (Panelist)

Mr. Soe Lin is the Advisor in the Harmonization Unit, World Bank: before this he served as Advisor in the Comprehensive Development Secretariat of the World Bank. He has worked as research economist, economist, senior economist, advisor, manager, and senior executive positions in various organizations, including CIDA, and as an Advisor in the Office of the Canadian Executive Director in the World Bank.

Peter Fedon (Panelist)

Dr Peter Fedon is the Country Director, Pakistan , of the Asian Development Bank. Before ADB, he worked for the External Relations Department of the European Commission in Brussels on countries in the Near and Middle East region. He brings with him a wealth of experience based on more than 20 years of development work in senior technical and managerial positions covering countries in Latin America, Africa, and Asia. Dr Fedon holds a Ph.D. in economics from the University of Berlin and a Master's Degree in Social Science, specializing in social policies and development planning.

Charlotte Seymour Smith (Panelist)

Ms. Seymour-Smith is the Director Asia in the UK Department for International Development (DFID). Previously, she has worked as head of DFID India and held several other positions in the department. She has a doctorate in Social Anthropology and a Masters in Latin American Studies.

Haoliang Xu (Panelist)

Mr. Xu is the UNDP Country Director in Pakistan , Chair of the UN Poverty Reduction Group and Co-Chair of the Donor Poverty Reduction Group. Previously, he was the UNDP Country Manager in Timor-Leste. He has also served in other Asian regions. He has a Masters Degree in International Affairs from Columbia University New York and also holds a Masters in Management from Stevens Institute of Technology.

Jonathan Addleton (Panelist)

Mr Jonathan Addleton is currently Mission Director USAID. Prior to this he was a U.S. Foreign Service officer working with the U.S. Agency for International Development. He has held posts throughout the countries of the Middle East. He has also worked with the World Bank and the Carnegie Endowment for International Peace.