

Ishrat Husain: Financing human development in Pakistan

Speech by Mr Ishrat Husain, Governor of the State Bank of Pakistan, at the Pakistan Development Forum, Islamabad, 25 April 2005.

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Pakistan has committed to achieve its MDGs by 2015 through a variety of interventions e.g. Real per capita income growth, expansion of schooling particularly for the female population, increasing pupil-teacher ratio, improving sanitation access, increased immunization coverage, improving nutritional status of the children, providing electricity to the villages. Empirical studies assessing the progress made so far indicate that growth of real consumption expenditure per capita and large targeted intervention in child survival, malnutrition and schooling over and above the more general intervention could take Pakistan closer to achieving these goals. Failing this, it will be quite difficult to attain any of the MDGs. Financial assistance to poor families conditional on their making investment in their children's human capital can bring about the desired results in improving child schooling, health and nutritional outcomes.

Conceptually, the economists think in terms of production function i.e. a set of inputs are deployed to produce one Unit of output. In case of MDGs the inputs such as teachers, doctors and para medical staff, generation transmission and distribution of water and collection of waste and garbage, supply of immunization shots etc. produce expansion of school, improved access to health, nutrition, water supply and sanitation, immunization coverage etc. Some of these inputs are additive while other interact with each other in a positive way making the output greater than the sum of all the inputs e.g. provision of inputs for potable water supply and sanitation interact with inputs for health in a way that the outcomes of improved access to health, water and sanitation are positively correlated. Therefore instead of thinking independently of financing for education, financing for health, financing for water supply and sanitation we should think in terms of financing MDGs and include all expenditures on inputs that are deployed for achieving the outputs or outcomes embedded in the MDGs.

Institutionally, federal government ministries, provincial departments, district government departments are all organized vertically and do not conform to the conceptual issue that I have outlined. Thus there is a disconnect between optimally efficient utilization of financing and the actual delivery of these programs. The other issue is that we have to design the correct measure to capture expenditures on human development. So far we have focused on a partial measure i.e. public expenditures - the amounts allocated out of the budgets of Federal or Provincial Governments. As a matter of fact there are three types of expenditures that are incurred. First is the public expenditure, second is the expenditures by private and nongovernmental sectors who provide schooling or health services and finally is the expenditures incurred by the households themselves in form of tuition fees, text books, purchase of medicines, vaccines etc. When all three types of expenditures are taken together we get a complete picture of the expenditures on inputs used for achieving MDGs.

In addition to MDGs Pakistan has developed the Poverty Reduction Strategy (PRSP) and more recently an ambitious medium term development framework (MTDF) to catch up in the other areas of human development such as secondary, vocational and technical training, higher education, science and technology teacher training, curative health services etc. Too much preoccupation and the swing of pendulum towards an exclusive focus on primary education and basic health services create its own distortions and disequilibria. Teachers at the primary level exhibit poor quality and performance despite many attempts at teacher's training because their graduate and postgraduate education has been sub-optimal. Universities are producing hundreds of thousands of graduates every year who are not all suited for ready absorption in labor market while economy is starving from a lack of technical skills. We have aspirations to become an active player in the globalized economy but capacity has to be developed in our science and technology institutions to generate the products, innovations and processes that will improve the productivity. The linkage between industry and universities is almost non-existent at present and has to be nurtured.

The main argument of this paper is that while the donor emphasis and Pakistan's commitment to achieve MDGs are well placed and should be fully implemented a more holistic approach towards human resource development that caters both to the economic and social objectives of the country has to be adopted. The internalization of externalities, spillovers and linkages within the whole human

development initiative would create efficiency and result in cost savings and thus reduced overall financing needs.

Second, "All hands on the deck" covering the Federal, Provincial and local governments, private sector, external donors, communities, not-for-profit institutions, civil society organizations, philanthropies and charities should be assigned roles in a more cohesive and integrated manner. The waste, duplication, overlapping can be avoided and optimal use of physical facilities and infrastructure by multiple players and pooling of resources across institutions rather than maintaining separate silos encouraged under the current arrangements of program delivery.

Third, the excessive focus on public budgetary allocations on education and health has neglected the tremendous expenditures, being made by the households themselves in spending on schooling, health care, water and sanitation and also the efforts being made by other providers of these services in non-governmental sector. Attention should be shifted from the level of public expenditures or its share in GDP to the productivity of these expenditures. These stereotype and meaningless indicators with which the countries are flogged for lack of their commitment are not very helpful.

Fourth, it is my contention that we should distinguish between financing and provisioning. While the Government should be responsible for financing primary and to a large extent secondary education and basic health services particularly preventive it should have, however, no exclusivity or monopoly in providing these services. For the poor quintiles the access to quality services can be improved if the Government provides scholarships, stipends, per capita grants and financial assistance to the non-governmental or quasi-governmental institutions in a transparent and targeted manner. The Government is already providing several incentives to these providers in the context of its Public-Private partnership program which needs further strengthening in operational terms.

To illustrate this point education and health in Pakistan has been blessed recently with the entry or private sector, not-for-profit organizations, semi or quasi-governmental bodies (Annex I for a tentative list). The National Commission on Human Development, the National or Provincial Educational Foundations, Rural Support Programs, Fauji Foundation, Private foundations, charitable hospitals and clinics are taking an increasing burden of provisioning every day. There is no reason that the Government cannot use some of these quality institutions for financing the services targeted at the poor. So a competitive business model in which all service providers irrespective of their affiliation meeting the set criteria can provide the education, health or other services to the poor households needs to be implemented.

If the above holistic framework encompassing the concept, measurement, financing, provisioning of Human Development is agreed upon and a consensus is reached then the issue of financing human resource development becomes less pressing.

Table-I
Financing human development
2005-2010

	Public	Private	Total
Basic and College education	103	50	153
Health, Nutrition and Populate	107	300	407
Water and Sanitation	150	1050	1200
Skilled based literary, technology education	70	37	107
Higher education, S&T	223	70	293
Total	653	1507	2160
Annual	130	300	430

The total financing requirements for human development as identified in the MTFD and estimated on the basis of household expenditures amount to Rs.2160 billion over 2005-2010 period or Rs.430

billion annually. Of this, public expenditure is Rs.130 billion or slightly over or US\$2 billion annually or less than one third of the total expenditure on human development, while private expenditure is Rs.300 billion or \$ 5 billion annually. Private expenditure is dominated by household expenditure on water and sanitation, and health and to a lesser degree education. Non-household private expenditure would be about Rs.30-60 billion annually mainly provided by philanthropic, charitable institutions, individual and corporate donations and endowments.

In the last year 2003-04 the total public expenditure on education and health alone was Rs.112 billion. Thus the proposed target of Rs.130 billion is not unrealistic and can be easily achieved if the domestic and donor assistance are available.

Conclusion:

Pakistan's public expenditures on human development are low by international standards and are approximately 4 percent of GDP. But total public and private expenditures amount to more than 8 percent of GDP i.e. twice what the public sector spends. But this number is hardly recognized or mentioned in the popular discourse. Households themselves spend at least 4percent on health, education, water supply and sanitation.

Donors have to agree on an integrated plan of human resource development that will meet the MDGs as well as the objectives set out in the MDTF. They should then channel their resources on the basis of certain criteria i.e. cost effectiveness, efficiency in the resource use, targeting the poor households, quality of service etc. Competition for these resources among the various providers of services will give them a better bang for the buck. For primary education and basic health services it is proposed that the 30 most deprived districts of Pakistan (Annex II) where the majority of the population live at the poverty or fringes of poverty and have the weakest social indicators should be chosen for grants in aid, scholarships, stipends, and other financial assistance. This will spur into action these providers of services who are at present reluctant to extend their outreach to these poor districts because of higher set up and operating costs. The assistance to them should be linked to the outcomes such as net enrolment ratios, drop out rates, immunization etc.

In my view the approach outlined in the above paper has a much better chance of achieving both the MDGs as well as the objectives set out in the PRSP and the MDTF.

Annex-I

Major service providers in the non-governmental sector.

1. National Commission on Human Development
2. Beaconhouse School System
3. CARE
4. Bahria Foundation
5. Shaheen Foundation
6. The Citizens Foundation (TCF)
7. Fauji Foundation
8. Sindh Education Foundation (SEF)
9. Bunyad Foundation
10. Al-Sahiffa Hospital
11. Rural Support Programs (RSPs)
12. Punjab Education Foundation (PEF)
13. Agha Khan Education Service (AKES)
14. Agha Khan Health Service (SKHS)
15. Edhi Welfare Services
16. Shaukat Khanum Trust
17. National Education Foundation (NEF)
18. Overseas Pakistanis Foundation (OPF)
19. Lahore University of Management Sciences (LUMS)
20. Frontier Education Foundation (FEF)
21. Community Learning/Literacy Centers
22. Pakistan Centre for Philanthropy (PCP)
23. Marie – Adelaide Trust
24. Layton Rahamtullah Trust
25. Infaq Foundation
26. G.I.K. Institute
27. Agha Khan University
28. FAST
29. Shaikh Zaid Hospital, Lahore
30. Al-Shifa Trust

Annex-II

30 most deprived districts in Pakistan

(Based on overall Deprivation Index published by Haroon Jamal et al in Pakistan Development Review Summer 2003)

100	Musakhel
99	Kohistan
98	Kharan
97	Kohlu
96	Awaran
95	Zhob
94	Jhal Magsi
93	Panjkur
92	Khuzdar
91	Shangla
90	Batagram
89	Dera Bugti
88	Barkhan
87	Nasirabad
86	Killa Saifullah
85	Killa Abdullah
84	Tharparkar
83	Bolan
82	Rajanpur
81	Upper Dir
80	Mastung
79	Chagai
78	Thatta
77	Lasbela
76	Badin
75	Jafarabad
74	Loralai
73	Muzaffargadh
72	D.G. Khan
71	Kalat

Provincial breakdown

Balochistan	20/26
NWFP	4/24
Sindh	3/16
Punjab	3/34