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Poverty reduction in Pakistan

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Women and children riding the Lahore Bus Rapid Transit. Photo: © Asian Development Bank.

Case Study Summary

Material wellbeing

- Pakistan appears to have reduced poverty remarkably. The share of people living on less than US\$1.25 a day is estimated to have fallen from 64.7% in 1990 to 12.7% in 2010 and, based on the official national poverty line, from 25.5% in 1992 to 12.4% in 2010.
- Yet major doubts are raised over the veracity of the official figures. A significant number of stakeholders in the policy arena disagree with the official view that poverty has reduced.
- They cite declining rates of growth in real GDP per capita, an increase in child stunting and wasting, and data that suggests over half the households in Pakistan were food insecure in 2011.
- Has progress in reducing poverty in Pakistan been real? Why are the official data and the mainstream narrative so contested?

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Why explore poverty reduction in Pakistan?

Pakistan appears to have reduced poverty remarkably. The share of people living on less than US\$1.25 a day (2005 purchasing power parity) is estimated to have fallen from 64.7% in 1990 to 12.7% in 2010 (World Bank, 2015a) and, based on the official national poverty line, from 25.5% in 1992¹ (Cheema, 2005) to 12.4%² in 2010 (GoP, 2014).

Yet major doubts are raised over the veracity of the official figures. A significant number of stakeholders in the policy arena (that we interviewed for the study) disagree with the official view that poverty has reduced.

To many stakeholders, the official national poverty line is fraught with complexity that is both technical and political in nature. According to them, the purported progress is incommensurate with wider macroeconomic and political conditions in the country as well as with trends in other dimensions of wellbeing. The drivers of progress, from their perspective, have also not favoured the poor (key informant interviews, 2015).

It is against this backdrop that we explore in this case study whether progress in reducing poverty in Pakistan has been real, and why the official data and the mainstream narrative on poverty reduction are so contested.

Evaluating progress

1. Evidence that poverty has reduced

Gauging from the 2010 official estimate, Pakistan has achieved one of its localised targets under Millennium Development Goal (MDG) 1: to halve, between 1990 and 2015, the proportion of people below the national poverty line. Other official data is congruent with the claim that poverty has fallen. For instance, public spending on 17 pro-poor sectors has increased (GoP, 2013a). A major boost to safety-net spending since 2007 and to the Benazir Income Support Programme (BISP) in particular has facilitated poverty reduction in recent years (GoP, 2014).

The World Bank also finds that poverty in Pakistan has fallen faster than its South Asian counterparts, but that the decline has been inconsistent. For most of the 1990s poverty fell until a drought in 1998 raised the number of people in extreme poverty from 40 million in 1998 to 53 million in 2001. Since then, poverty has declined steadily (World Bank, 2015). In absolute terms, 22 million people were poor in Pakistan in 2010 compared to 72 million people in 1990, despite the population increasing from 108 million to 170 million during this time (UNDESA, 2015).

Multidimensional poverty statistics, however, reveal a different picture, in part because the indicators to compute these are not based on consumption, but on other indicators of wellbeing. Multidimensional poverty has been calculated within Pakistan by the Social Policy Development Centre (SPDC) (Jamal, 2012), as well as internationally by the

‘In all these controversies, we lose sight of what’s really at stake – the poor people of Pakistan’ – Former government official

Oxford Poverty & Human Development Initiative (OPHI). SPDC shows that the proportion of people identified as multidimensionally poor fell marginally from 49.4% in 2005 to 48.1% in 2011 (Jamal, 2012) while OPHI figures suggest a slightly more substantial fall from 49.4% in 2007 to 45.2% in 2013 (OPHI, 2015).

In addition, the Pakistan Rural Household Survey (renamed the Pakistan Panel Household Survey to reflect the inclusion of urban areas since 2010) has tracked the same households over time to assess their movements into and out of poverty. Survey results show a decline in rural poverty from 27.5% in 2001 to 22.4% in 2010, and that more rural poverty households moved out of poverty (15.9%) than into poverty (13.3%) in this time period (Arif and Farooq, 2012).

On the face of it, the evidence to indicate that poverty has reduced is very compelling. Estimates produced by the government, the World Bank and the panel data all demonstrate a reduction in consumption-based poverty, complemented by the multidimensional poverty assessments. Yet, the evidence is partial at best. This is partly because there are flaws in the official evidence base (which we highlight), and partly because other sources of evidence – both quantitative as well as qualitative – raise doubts over the stated reduction in poverty.

2. Evidence that raises doubts

In this sub-section, we examine the quality of the official evidence base beginning first with technical flaws in household surveys (mainly in the consumption module and the sampling frame) as well as technical flaws in the official measurement of poverty in particular the adjustment of

‘One doubts the poverty figures when they don’t correspond with everyday observations’ – Head of an international humanitarian agency

1 Oddly, many government and donor documents cite a figure of 26.1% as the national poverty headcount ratio for the year 1990, however this figure is not based on the official methodology to estimate poverty and is therefore not comparable to figures from 1992 and 2010 that are.

2 This figure is cited by the government as an ‘interim’ indication of poverty.

the official national poverty line using the Consumer Price Index (CPI). We also present other contrasting quantitative and qualitative evidence.

Prior to 1998, the Household Integrated Expenditure Survey (HIES) – which provides data on household consumption – was conducted on its own. In 1998, it was merged with the Pakistan Integrated Household Survey (PIHS) to consolidate the collection of socio-economic data. This combined survey had a consumption module that tried to retain the earlier HIES format. The module underwent two specific changes. First, expenditures in the combined survey's module were recorded in less detail. Second, the reference period of consumption was changed. Whereas previous HIES data documented monthly consumption, the combined survey's module relied on fortnightly consumption for a majority of food items. Both the World Bank (2002) and Arif (2006) note that these changes are likely to affect the comparability of consumption data since 1998 with earlier HIES data.

To illustrate the impact these changes are likely to have we examined other country experiences. In India, for instance, the National Sample Survey Organisation experimented with recall periods of 30 days and 7 days, and found that the latter led to estimates of consumption that were 23% higher (Deaton and Kozel, 2004). A study by Beegle et al. (2010) in Tanzania found that reducing the recall period from 14 to 7 days increased the poverty headcount by 8 percentage points, while using this recall period as well as a highly collapsed list of items led to estimates that were 20 percentage points higher.

Pakistan has also not had a national census since 1998. The sampling frame of the household survey is therefore old and produces biased poverty headcount ratios. The country's population has grown significantly faster than projections made from the 1998 Population Census. For example, in the 2010/11 HIES round, the population size was estimated to be 130 million, whereas Pakistan's most recent economic survey (2010/11) issued by the Ministry of Finance as a 'state of the economy' report cited a figure of 177 million for the same year of the survey round. If the latter estimate is correct, 47 million people are missing from the poverty statistics (Malik et al., 2014a).

A major flaw in estimating official poverty figures is linked to the adjustment of the official national poverty line with the CPI. The consumption basket of food and non-food items was fixed in 1998 when the official national poverty line was constructed in Pakistan. Over time, the poverty line has been adjusted through the CPI to reflect the same cost to the average consumer of acquiring that basket. Food weights in the CPI are derived from the Family Budget Survey (FBS) from 2007 that is now outdated, covers only cities and urban markets, and also underestimates household spending on food (Malik et al., 2014b, and Business Recorder, 2015). For example, the FBS estimated a food share of 35% in 2007, while survey data on household consumption for that same year

estimated the food share to be 37% in urban areas and 51% in rural areas. Higher expenditure on food in rural areas, combined with low weighting given to the food share in the CPI in high food-price periods, are likely to underestimate rural poverty in Pakistan.

The decline in real GDP growth per capita also raises doubts over the apparent fall in poverty. Average real GDP growth per capita declined from 1.9% in the early 1990s to 0.9% in the late 2000s. The country's economic history has been turbulent, with repeated cycles of growth followed by stagnation (World Bank, 2010).

Moreover, the national level data on malnutrition, hunger and food insecurity do not illustrate a positive picture. Between two rounds of the *National Nutrition Survey* (NNS) in 2001 and 2011, the percentage of children under the age of five who experienced stunting and wasting increased from 41.6% to 43.7% and from 14.3% to 15.1% respectively (GoP, 2011).

According to the NNS 2011, 58% of households in Pakistan are food insecure. Of these 28% are food insecure without hunger, 20% are food insecure with moderate hunger and 10% are food insecure with severe hunger. Around 52% of urban households and 61% of rural households are food insecure (GoP, 2011).

The evidence cited above raises reasonable doubts over the stated reduction in poverty. Qualitative evidence of three types – participatory poverty assessments (PPAs), individual and group-based interviews, and household perceptions about their economic situation – also reinforces doubts.

Between Hope and Despair was a nationally representative PPA that was conducted between 2001 and 2002 (GoP, 2004). Using a data-generating process based on participatory wealth ranking (PWR), whereby households within the respective communities defined their own criteria for wealth and wellbeing, the assessment revealed very diverse definitions and descriptions of poverty. The national report found that the number of people who had fallen into poverty exceeded the number who had moved out of poverty.

In a qualitative study using individual and group-based interviews, Lohano (2009) aimed to corroborate information from a re-survey in 2004/05 of 226 panel households in rural Sindh (the second most populous province in Pakistan). These households were surveyed first by the IFPRI between 1986 and 1991. Through the interviews, the author found that the whole village community was severely affected in the wake of the 1998 drought for five years, from 1999 to 2004. This damaged villagers' income from crops and other sources plunging them into adverse coping, with negative consequences for their asset holdings and investments in human capital. He also found a sharp increase in the incidence of poverty over this time, as the percentage of households that entered poverty was nearly three times as high as the percentage of households that escaped it.

People's perceptions about the economic situation of their households and their communities also provide some useful insights. 79,600 households in the Pakistan Social and Living Standards Measurement (PSLM) survey reported the economic situation as having worsened at the household and at the community level between the survey year and the year before, for the survey years of 2008 and 2011. Since 2007 Pakistan's economic, and socio-political conditions have been fragile, and it is unsurprising to see these reflected in household perceptions.

The evidence that raises doubts over the stated progress is quite compelling but also partial at best. How then do we reconcile the contrasting evidence to state with some confidence that Pakistan's progress in reducing poverty has been real? Unfortunately we cannot. This is because in addition to the contrasting evidence, the estimation of the official national poverty line and of subsequent poverty figures has always been a highly political exercise. Contestation by key stakeholders over the construction and validation of the official national poverty line has pushed many technical aspects of the debate into political territory.

Stakeholder perceptions

Key stakeholders we interviewed are positioned in various corners of the poverty debate in Pakistan. The views they hold about the progress (or lack thereof) in reducing poverty vary widely from the opinion that the official statistics are misleading and poverty has increased over time, to the idea that poverty has in fact decreased over time but that the extent of the decline is debatable.

1. Stakeholder perceptions that poverty has reduced

The stakeholders who claimed that the official statistics are not misleading and that poverty has reduced over time assert the following:

- Although there may be pockets of extreme poverty in some parts of the country, overall the incidence of extreme poverty in Pakistan is low.
- Rural transformation over the past three decades has driven poverty reduction.
- The poor rely on a dynamic informal sector. Owing to the growth of this sector, income and consumption of the informally employed have increased.
- The inflow of remittances into rural areas and small towns has improved the living standards of migrants' families and benefitted local economies.
- Pakistan's focus on targeted subsidies such as cash transfers to poor families through the BISP has driven poverty reduction.
- The extension of financial services to rural inhabitants, the poor and women – in particular through microfinance – has facilitated income-generating activities.
- The effective demand for household appliances (mainly refrigerators), and automobiles including motorcycles, as reported by consumer goods' companies, has expanded.

'The timing of poverty estimates is key. The politics of measurement that besets technical exercises is really the politics of acceptance' – Former government official

2. Stakeholder perceptions that poverty has increased

The stakeholders who claim that the official statistics are misleading and that poverty has increased over time assert the following:

- Improvements in the official poverty statistics are not supported by other indicators of wellbeing.
- The global food crisis of 2006, which was followed by the Great Recession of 2008, has had an unprecedented impact on food prices in Pakistan. With high food inflation, people increasingly substitute nutritious food with inferior quality food.
- Pakistan's consistently low rates of economic growth during the 1990s and after 2007 have not generated the employment needed to keep the level of poverty static, let alone to reduce it.
- Energy deficits since 2007 have severely affected labour productivity as well as small firm competitiveness. As these firms employ a sizeable share of the labour pool, their low-profit potential and high energy costs translate into low wages and job insecurity for their workers.
- The subsidies on food, electricity and fuel, which previously benefited poor households, are no longer available to them. Moreover, income transfers through BISP are ineffectively targeted, adversely affecting households that are eligible for support but are unable to access the transfers.
- Several aspects of public finance have failed to address poverty. The country's taxation system is highly regressive and the burden of indirect taxation falls mainly on the poor.
- The fragile democratic governments of the 1990s were unable to achieve high economic growth. Even though General Musharraf's tenure was marked by economic growth, poverty did not reduce significantly. In the period following 2008, the democratic government led by the Pakistan People's Party was largely consumed by the political process and securing its own survival rather than focusing on the economic situation.
- Broader geopolitics, particularly the decision to support the war on terror, have exacerbated poverty. Over 13 years, the war on terror has cost the country US\$102.5 billion (*Express Tribune*, 2014).

Even though some of the arguments raised by stakeholders on both sides are plausible, without robust evidence and systematic analyses in defence of their positions, it is difficult for us to concur with either of their conclusions. The starkly contradictory accounts of poverty reduction from key stakeholders, however, reinforces doubts.

Implications and the road ahead

This section discusses the policy implications of such high levels of contestation, and closes with recommendations for the road ahead.

1. Implications

The disputed evidence is unable to confirm Pakistan's progress in reducing poverty between 1990 and 2010 and thereby in achieving its first localised target under MDG 1. As the timeframe of the MDGs draws to a close, Pakistan stands unable to assess its progress in reducing by half the proportion of people living below the official national poverty line. An incorrect baseline figure (see footnote 1) and the tentative nature of the latest official figure leaves us with a surprisingly inconclusive story of progress.

The perpetual state of ambiguity over the progress in reducing poverty is detrimental to policymaking. The inability to establish clearly poverty trends between 1990 and 2010 impedes the government's ability to make policy and to allocate resources based on past evidence.

'We are mindful that we have never been short of policies and plans but the failures in the past have been in the area of implementation' – Minister for Planning, Development and Reform, Ahsan Iqbal in Vision 2025³

The contestation over the official poverty figures overshadows the broader policy agenda. The policy debate (in particular since the mid-2000s) has been confined to agreeing on a single figure – the percentage of poor people in the country. This has overshadowed other equally important poverty-related issues in the policy agenda.

Pakistan demonstrates how hard it is to present official poverty estimates when the data and the mainstream narrative on poverty reduction are so contested. It reinforces the view that data is inherently political as well as technical, so any proposed solutions should aim to involve both politically orientated and technical recommendations.

2. The road ahead

New sampling frames must represent the population. The government's plan to conduct a nationwide population census in 2016 (last undertaken in 1998) is a crucial step forward. The new sampling frames that will be generated from this census must reflect the demographics and household characteristics of the country adequately. These will in turn strengthen the household surveys that form the basis for estimating official poverty figures.

The weights of the CPI must reflect what households in both rural and urban areas spend on food and non-food items. Coverage of the Family Budget Survey that determines weights in the CPI needs to expand to rural areas, as most poverty in Pakistan is rural. The weights in the index must reflect accurately the amounts that different households spend on food and non-food items. As these weights are used to inflate the official poverty line it is vitally important that they be representative.

Stakeholder consensus needs to be built and the differences in accounts of poverty reduction reconciled. Stakeholders in highly influential positions must be encouraged to build consensus.

Pakistan must establish a credible baseline upon which to assess progress in reducing poverty between now and 2030. A credible baseline will enable Pakistan to monitor and plan its progress in reducing as well as eliminating poverty in all its forms everywhere in line with Sustainable Development Goal 1. This will also complement Pakistan's *Vision 2025* strategy.

³ Vision 2025 (GOP, 2013b) is the incumbent government's vision document for the next ten years as well as the policy roadmap for the Ministry of Planning, Development and Reform.

This summary is an abridged version of a research report and one of a series of Development Progress case studies being released at developmentprogress.org

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