

# Economic Growth Strategy

*"To accelerate growth, improve  
productivity; Reduce  
Unemployment and Poverty"*



## Preface

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Government of Khyber Pakhtunkhwa is committed to accelerate provincial growth through a targeted strategy wherein comparative advantages of the province in natural resources ie. Minerals, oil & gas reserves, tourism and hydel power generation will be exploited. It fits in well with comprehensive development strategy with objectives of poverty reduction and employment creation by means of a range of priority measures in all the sectors with clear distinction between short and medium term. Growth strategy is more focused and lays out a framework by identifying growth or productive sectors, infrastructure related sectors facilitating growth sectors and social sectors which can have two way relations with growth, both as a cause and effect.

Growth strategy acknowledges that public spending programmes have been heavily tilted towards 'brick and mortar' projects. Quantity rather than the quality of public investments remained the yardstick of development. Current thinking is based on the realization that increases in public investment need to be supplemented with measures to bring qualitative improvements. Rationalization and consolidation of public investments will gear the limited financial resources towards the most critical areas having the greatest margins for development.

For the first time, province has engaged in analysis of public investments in terms of the linkages between inputs and outcomes. The provincial government is aware that new NFC award and negotiation of net hydel profits have opened new vistas of increased funding. At the same time, the government does not lose sight of the additional responsibilities placed by passage of 18<sup>th</sup> amendment. The growth strategy is a product of government's effort to use the increased resources with maximum efficiency and effectiveness in a brilliantly targeted fashion. I look forward to putting the strategy into implementation through active cooperation of all the stakeholders.

**ATTAULLAH KHAN**

Additional Chief Secretary  
Planning & Development Department  
Government of Khyber Pakhtunkhwa

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## Chief Minister's Message

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The province is on reforms path, rediscovering its inherent strengths and converting them into drivers of growth, revenue and employment. From financial reforms to formulation of sectoral strategies encapsulated in first ever CDS and now focused in Growth Strategy, the struggle continues to develop the province's systems and policies aligned with professed priorities of competitive, comparative and viable industrial base supported by educated and skilled workforce.

Our Growth strategy analyses the challenges facing our economy revealing that our economic sectors lag behind new trends. It proposes a paradigm shift advocating an analysis of status quo. To make this paradigm shifts a reality, all stakeholders must participate productively in this transformation.

We now are more than ever conscious of the fact that we have immense wealth of natural resources. We are also fully aware that these are not being optimally utilized. We have uncovered the obstacles to achieving fast, stable and sustained growth by complementary attention to poverty reduction and human capability improvements. Our natural resource based industries must be supported to boost their competitiveness. The government pursues the channels to cultivate our natural resource endowments into high value added industries, minimize the infrastructure impediments and encourage private sector to join hands with us in lifting this region out of economic stagnation.

Our ultimate aim is to raise the living standards and employment opportunities for the masses through a growing regional economy. I strongly hope that all departments will work together to translate the growth strategy into action plans realizing our goal of a prosperous and developed province.

**AMIR HAIDER KHAN HOTI**

Chief Minister of Khyber Pakhtunkhwa

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Introduction

**Economic Growth and Poverty**

**Salient features of Khyber Pakhtunkhwa**

**Opportunities and Challenges**

**Contours of Economic Growth:**

**Promote sectors with comparative advantage**

**Encourage investments in high return sectors**

**Government as a facilitator ; regulator enabling  
private sector to lead growth**

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## **1. Introduction:**

Economic Growth Strategy of KPK reinforces core priorities of Comprehensive Development Strategy (CDS) of the Province, launched in 2010. CDS presents an overarching development strategy covering all areas with priority policy and programmes ranging from public finance, governance, social development, food policy, Agriculture employment, Irrigation, Power and Industrial development. CDS also conforms broadly to the tenets of national Poverty Reduction Strategy Paper (II), formulated in 2008 with a timeframe of three years constituting nine pillars including Macroeconomic Stability, Agriculture productivity, industrial competitiveness, human development and protection for the poor and vulnerable as the key areas for reducing poverty and achieving sustainable development with gender equality and environment sustainability as cross-cutting themes.

Economic Growth Strategy (EGS) of KPK goes beyond CDS in orchestrating a framework (annex 1) to stimulate growth in potential ‘growth/priority sectors’ of the economy through enhanced public investments and complementary sectoral policies . Towards achieving this end, P&D department declares priority sectors considered as drivers of growth i.e. Agriculture value addition and agro-processing industries, Mining, Oil & Gas and Hydelpower in natural resources and Tourism in Services. The Economic Growth Strategy envisions that acceleration of growth will be realized by concentrating on natural resource endowments of the province whether be in Hydel power, mining and minerals or Oil&Gas. At the same time, GoKP will develop the supporting sectors i.e. Utilities (energy and water), telecommunication, Infrastructure and Irrigation to remove the impediments hindering growth in ‘priority sectors’.

Aware of the linkages among Growth, human development and poverty, GoKP will at the same time invest in Human Capital by ensuring better quality of education and Health services instead of just focusing on quantity of provision. Redistributive social protection programmes are built in the strategy in order to ensure that growth also benefits the poor and marginalized.

## **2. Rationale for renewed emphasis on Growth :**

Home to 22.2<sup>1</sup> million people, blessed with natural resources in Oil & Gas and minerals i.e. marble, gem stones, forests and rich in touristic assets such as mountains, scenic valleys and historical sites, Khyber Pakhtunkhwa (KPK) possesses a wealth of untapped economic potential; an untried recipe

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<sup>1</sup> Comprehensive Development Strategy, 2010-17

for fast and high growth. Unfortunately, the resources' investment strategy while following a much trodden path for decades remained captive to an antiquated thinking; to invest more and more in brick and mortar as a development solution to the problems of low and slow growth; high rates of unemployment and underemployment; a decadent infrastructure; inefficient, inadequate transportation facilities; a non-competitive industrial sector and last but not the least, stagnant human development indicators.



The exogenous constraints to economic growth have been onerous. KPK at a strategic geographical location has been paying the cost of cross border conflicts in Afghanistan since Soviet invasion of Afghanistan in 1979. KPK economy received severe battering from the constant influx of Afghan refugees which were estimated to be more than three million; 1.5 million are still residing in the province. In the aftermath of 9/11 the province remains riddled with the intricate problems of militancy since invasion of Western forces in 2002. Constant trickle of refugees, a continuing war in the bordering Afghanistan, infiltration of the militant elements in the society coupled with scarce resources have resulted in a crippled social order, failing law& order and a heavily underutilized economic capacity.

Since new NFC award in 2010 after eighteen years, the province has received a windfall gain of its share in the divisible pool. The increase in the share from federal pool considerably enhanced the financial resources at the disposal of the provincial economy. Increase in resources has not been without the additional responsibilities though. Passage of 18<sup>th</sup> Amendment in 2011 has transferred many subjects to the province hitherto the sole responsibility of the Federal Government.

*[Given the massive increase in financial resources and additional responsibilities placed on the provinces in the post-18<sup>th</sup> amendment scenario, it is important to revisit the traditional development policies and practices to revamp the inefficiencies and harness the full productive potential of the economy]*

Given the massive increase in financial resources and additional responsibilities placed on the provinces in the post-18<sup>th</sup> amendment scenario, it is important to revisit the traditional development policies and practices to revamp the inefficiencies and harness the full productive potential of the economy. Growth Strategy is an effort to break with the tradition; focus on the growth sectors of the economy and promote value addition. The objective of the new strategy is to increase the rate of growth through the sectors where the province has a comparative advantage and at the same time, develop competitive edge of the sectors by offsetting the inherent disadvantages of location.

### **3. Growth and Poverty:**

#### **“Economic Growth is an ally of the poor, not their enemy”:**

Economic growth- Poverty nexus has evoked a large amount of empirical work into the experiences of developing nations to arrive at a definite conclusion as to whether poverty reduction is automatically achieved through economic growth. It also raises questions on whether economic growth leads to further poverty through income inequality. The evidence is far from conclusive. Nevertheless many a studies point to the risk that in the immediate and short run, inequality might rise. There is also contrary empirical evidence that economic growth does not necessarily bypass the poor. Rising per capita incomes as a consequence of higher growth leads to sustainable poverty reduction provided growth is sustained and pro-poor through initiatives in Social protection.

GoKP recognizes that poverty alleviation in the presence of a stagnant economy with low per capita incomes is an impossible task to accomplish. To effect an increase in the incomes and improvement in

the living standards of people, there is no alternative but to try and put the provincial economy on a sustained growth trajectory.

Poverty in KPK is higher than the national average while economic growth is lower than the national average. Recent estimates of both are neither available nor calculated at the provincial level. However, few sources have tried to calculate the poverty rates using data from HIES. The resultant poverty Headcount calculated by three different sources differ substantially; none of these prove to be a source of comfort. In the table below, three different institutions have calculated poverty Headcount rate from Household Income and Expenditure Survey 2001/02:

|    | Sources   | Poverty Headcount (KPK)<br>based on HIES (2001/02) |
|----|---|--|
| 1. | Pakistan – Overall (FBS)  | 34.5   |
| 2. | Social Policy Development Centre (SPDC)                             | 39   |
| 3. | Centre for Poverty Reduction and Social Policy Development (CPRSPD) | 41.5   |
| 4. | World Bank Economic Report  | 46   |

Provincial calculation of poverty line has never been officially undertaken. In the absence of a recognised poverty line, unofficial estimates are the only available options. The estimates presented by all three sources show significantly higher but varying levels of poverty as compared to the national poverty line. The inconsistent Headcount Ratios with the use of same data set make it difficult to place much trust in any of these. However, the broader picture emerging from the available sources indicates rising poverty. Although it is difficult to state with assertion since there are no recent estimates. Given the food and fuel crisis since early 2008 and deteriorating Law and Order situation in the country and particularly in the province, a steep rise in poverty overall in Pakistan and much more in the province cannot be overruled.

GDP calculation at the provincial level is also not done. Provincial GDP estimation from unofficial sources (World Bank Economic Report 2004-05) between 1990/91 and 2004/05 depict real GDP annual growth rate of 4.5 percent over the period. Pakistan’s economy on the other hand has been

growing at an average annual real GDP growth rate of 7.0 percent per annum for a period of four years from 2001/02 to 2005/06. Real GDP growth rate for Pakistan stood at 6.6 percent in 2005/06<sup>2</sup>.

Estimation of Provincial Headcount is important since the multiple criteria of 7<sup>th</sup> NFC award gives 10.3 percent weightage to poverty. PSLM 2010/11 survey will be completed by June, 2011. By early next year i.e. 2012, survey report will be ready. The consumption data will then be used to calculate national level Poverty Headcount.

Huge shifts in public investments in hitherto dormant sectors are in the offing. It is crucial to have an authentic, official baseline GDP figure to estimate contribution of various sectors to GDP; to make investment projections in respective sectors and to devise a monitoring framework. For the purposes, government of KPK will:

- **Acquire data of Consumption module of PSLM, 20110/11 from Federal Bureau of Statistics (FBS) to calculate provincial poverty line.**
- **Acquire data from FBS/Economic Advisor's wing Finance Division Federal, to calculate provincial GDP.**
- **Provincial Bureau of Statistics will be strengthened and its capacity enhanced to conduct the above two tasks on a continuous basis.**

#### **4. Salient Features of KPK:**

##### **4.1 Geographical location of the province: A competitive disadvantage**

Deep inland location of the province implies higher transportation costs which results in increases in input prices. The landlocked status of KPK also weakens the competitiveness of its exports except to the bordering Afghanistan. KPK shares long border with eastern and southern Afghanistan and a potentially useful trading route to China in the north. It is the smallest in terms of area among the four provinces and is located nearly 1,500 kilometers from the country's major port in the south. The province has a largely mountainous terrain with only 30 percent of the land cultivable.

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<sup>2</sup> Economic Survey of Pakistan, 2005/06

## 4.2 Population:

According to the last census of 1998, population of KPK stood at 17.7 millions, constituting 13.4 percent of the population of Pakistan and housed in 24 districts of the province. As per 1998 census, Population density increased to 238 persons per sq. km compared to 148 persons per sq. km in 1981.

Urban population of the province accounted for 16.9 percent of the total provincial population in 1998 with a large concentration in Peshawar, Mardan and Mingora. It is difficult to authentically state about the urbanization level and population density in the absence of any updated census data. Likewise total population is only an estimate based on the growth rate i.e. 2.93 percent per annum, at 22.2 million in 2009.

## 4.3 Labour Force:

The province is characterized by a rapidly increasing labor force. According to Labour Force Survey of 2008/09, labor force of Pakistan has grown to 53.72 million from 51.78 million in 2007-08. Civilian Labour force of KPK increased from 6.23 million in 2007-08 to 6.53 million in 2008/09. Unemployment rate for the province at 8.5 percent (defined as the percentage of unemployed among those looking for work) is significantly higher than the national average of 5.5 percent. Further, Labour force participation rates for 10-19 years old are 44.83 percent reflecting low educational levels.

| Table 2: Civilian Labour Force, Employed and Unemployed in KPK (in millions) ;<br>Labour Force Participation rates & Unemployment rates |         |       |       |         |       |       | Pakistan<br>(In millions) |
|---|---------|-------|-------|---------|-------|-------|---------------------------|
|   | 2007/08 |       |       | 2008/09 |       |       | 2008/09                   |
|   | Total   | Rural | Urban | Total   | Rural | Urban | Total                     |
| Labour Force  | 6.27    | 5.27  | 1.0   | 6.53    | 5.48  | 1.05  | 53.72                     |
| Employed  | 5.73    | 4.83  | 0.90  | 5.95    | 5.04  | 0.93  | 50.79                     |
| Unemployed  | .54     | 0.44  | 0.10  | .58     | 0.44  | 0.12  | 2.93                      |
| Labour force participation rate   | 39.81   | 40.52 | 36.49 | 40.17   | 40.95 | 36.49 | 45.66                     |
| Unemployed rates  | 8.62    | 8.40  | 9.77  | 8.5     | 8.5   | 11.17 | 5.5                       |

Source: Labour Force Survey 2008/09

The increase in labor force over the two years period, 2007/08 and 2008/09 is across gender and rural/urban. There is a marked contrast between rural and urban areas in terms of employment. Employed labor force is predominantly concentrated in rural areas in the years, 2007/08 and 2008/09 with fractional presence in urban areas. Distribution of the employed by major industry divisions reveal interesting patterns (Table 3.)

| Table 3. Major Industry Division                    | 2007/08      | 2008/09      |
|---|--------------|--------------|
| <b>Total</b>  | <b>100.0</b> | <b>100.0</b> |
| Agriculture, Forestry, Hunting & Fishing            | 44.6         | 44.05        |
| Mining & Quarrying                                  | .25          | .43          |
| Manufacturing                                       | 8.11         | 7.46         |
| Construction  | 8.08         | 10.03        |
| Electricity, Gas & Water                            | .75          | .76          |
| Wholesale and retail trade, Hotels & Restaurants    | 13.53        | 15.52        |
| Finance, Insurance, Real Estate & Business services | .68          | 1.13         |
| Transport, storage and Communication                | 7.52         | 6.88         |
| Community, social and Personal services             | 16.48        | 2.25         |

Source: LFS 2008/09

Most of the employed labor force of the province is absorbed in Agriculture and its sub sectors followed by Community, Social and Personal Services and Wholesale and Retail trade. Manufacturing and Construction are the next largest sectors with nearly equal shares of employed labor force. It is interesting to note that in 2008/09, only .43 percent falls in Mining&Quarrying, a sector in which the province holds the comparative advantage of natural resources and raw materials for light, and high value- added industries.

Underemployment in the province is also a major phenomenon to tackle. Out of 55.95 percent of the employed labour force occupied in Non-Agricultural jobs, 41.3 percent are engaged in the Informal sector, with a predominant presence in rural areas (31.39 percent) than in urban areas (9.91 percent). Distribution of employed by employment status reflect that major proportion of those employed in informal sector is found in the categories of Unpaid family workers and Own Account workers which are actually the disguised form of unemployment.

A higher proportion of the labor force is rural, and self-employed, largely low-skilled and illiterate or less educated, a disincentive for the prospective business investors affecting the job creation negatively. This is also a cause for high poverty.

Job creation is closely linked with GDP expansion. According to an estimate, to absorb the additional labour and reduce current unemployment rate, GDP needs to grow at a rate above 6 percent per annum.

#### 4.4 Socio-Economic Indicators:

State of provincial socio-economic indicators, particularly in Education and Health leaves much to be desired. The achievements in Education and Health are below the national average.



The literacy rate (10 years and older) in KPK for the year 2008/09 was only 50 percent lower than national average of 57 percent with significant gender discrimination i.e. 31 percent for female compared to 69 percent of males. Net enrolment rates (NER) for Pakistan for 2008/09 stood at 57 percent while for KPK the corresponding figure is 52 percent with considerable variations across the province. During 2008/09, the highest overall NER was in Abbottabad (68 percent)<sup>3</sup> and the lowest in Kohistan. The gender gap in enrolment rate is wide in Dera Ismail Khan, Tank and Peshawar as well. Surprisingly, in urban areas of Bannu, Haripur, Malakand and Kohat, the gender gap is low. Generally in rural areas there is a sizeable gap in NER for male and females.

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<sup>3</sup> PSLM 2008/09

There are currently 26,498<sup>4</sup> public schools in KPK whereas 24,865<sup>5</sup> of these are functional<sup>6</sup> schools. Annual School Census 2007/08 has identified Non-Functional public schools in the province with the highest number occurring in Swat, Bannu, Lakki Marwat and Kohistan, understandably so since this was a period of conflict and militant onslaught. However, there are non-functional schools in calmer districts of Abbotabad and Peshawar as well.

Apart from the functionality of schools, basic facilities in public schools such as access to water, electricity and boundary wall is also a major issue. Higher proportion of schools are inadequately equipped; in 2008/09, 60 percent of the primary and 70 percent Middle schools did not have access to water; there was no electricity in 44 percent Primary and 64 percent Middle schools; no boundary wall in 64 percent Primary and 71 percent Middle schools; 68 percent Primary and 81 percent Middle schools have no latrines<sup>7</sup>. Insufficient facilities have repercussions for raising the enrolment rates and retaining the children in schools, particularly adding to the gender differentials in achieving these educational outcomes.

Health related outcomes of the province indicates the need for lot of effort and resources to achieve the targets set in CDS. Under five mortality rate (deaths per 1000 Live Births) available only for the year 2006/07 stood at 75; provincial infant mortality rate (deaths per 1000 live births) was at 63 while the target set in CDS for 2015 is 40. Percentage of 12-23 months fully immunized children during 2008/09 was 78 for Pakistan whereas corresponding figure for KPK was 73 and CDS specified an ambitious target that by 2015 proportion of fully immunized children would exceed 90. Maternal mortality ratio at 275 in 2006/07 requires to decline to 140 by 2015 to reach the CDS target; Contraceptive Prevalence rate (CPR) stood at 25 in 2006/07 while CDS specifies the target of 70

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<sup>4</sup> CDS – 2010-17

<sup>5</sup> Annual Progress Report 2009/10– PRSP Secretariat, Finance Division, Government of Pakistan

<sup>6</sup> Functional school means teaching and student learning going on in the particular school. Non-Functional school means either no enrolment or no teacher in the particular school.

<sup>7</sup> as at footnote 5.

percent by 2015. Ante-natal health care coverage at 51.3 in 2006/07 is an improvement over 38 percent recorded in 2004/05. However there is a long way to go to achieve the national MDG target of 100 percent by 2015.

## **5. Opportunities and Challenges: Imperatives for Change:**

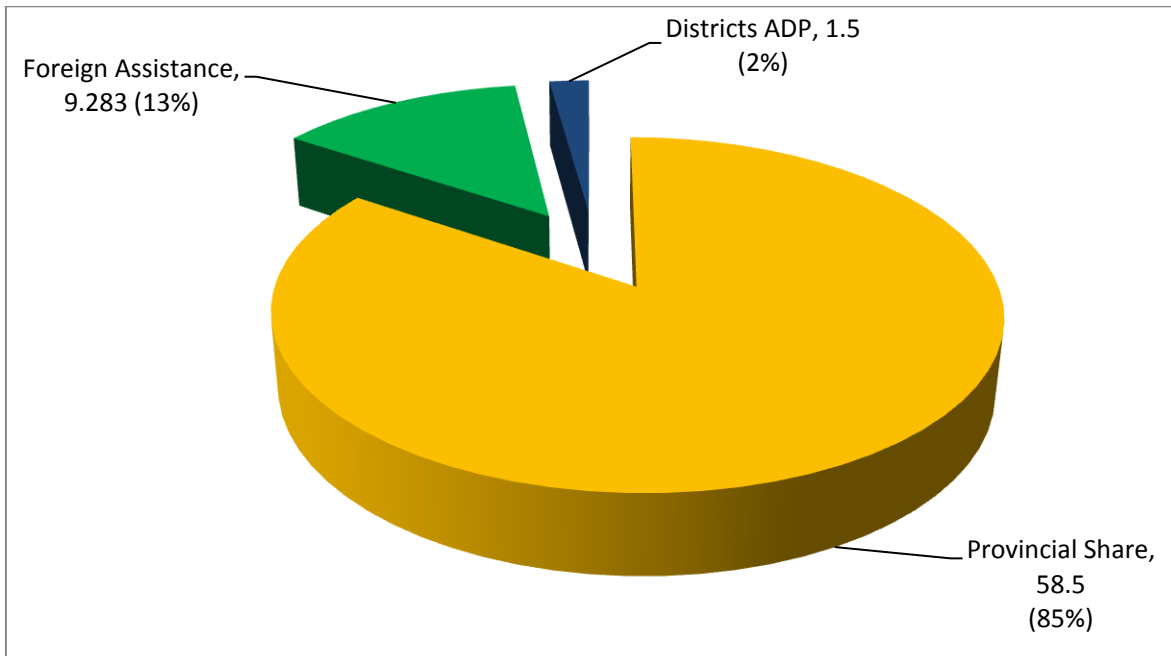
### **5.1 NFC Award:**

The years 2010 and 2011 have thrown opportunities and challenges for the provinces of Pakistan embodied in much awaited NFC award and 18<sup>th</sup> Amendment. NFC award translated into raising the provincial share from federal divisible pool by a wide margin i.e. from 49 percent to 56 percent during 2010/11 and 57.5 percent during the remaining years of the Award. Under the new formula, KPK would get 16.42 percent from the federal divisible pool including 1 percent of the net divisible pool as grant for war on terror. (Annex 2)

KPK received additional Rs. 12 billion in respect of its share of revenue on General Sales Tax (GST). In addition to NFC award related increases, a long standing payment dispute in respect of the Net Hyde Profit arrears between KPK and Federal government is settled, with an addition of Rs. 25 billion accruing to the provincial kitty in terms of arrears for the next three years (Medium Term Fiscal framework – Annex 2). First two installments of Rs. 10 and 25 billion have been paid to the Government of Khyber Pakhtunkhwa. Increase in financial resources is anticipated in the wake of 18<sup>th</sup> amendment which envisages equal share of federal and provincial governments in all forth coming production from Oil and Gas.

This had reflected into a much bigger Annual Development Programme (ADP) for FY 2010/11 of Rs. 69.283 billion as compared to the Rs. 39.764 billion in the previous financial year marking an increase of 74 percent over the two years.

Fig. 1: ADP for the year 2010/11 (Rs. 69.283 billion)



*1. Consolidation vs. Expansion*  
*2. Reduction in throw forward*  
*3. Rapid increase in investments in the sectors where there is higher return on investment*  
*4. Improvement in management of Public Finances through Output based Budgeting extended to Development budget.]*

## **5.2 Challenges – 18<sup>th</sup> Amendment and Deteriorating law& order**

Passage of 18<sup>th</sup> amendment placed majority of the subjects in the provincial domain. This implies more responsibilities and autonomy for the province. The transfer of subjects also translates into a rise in the payroll expenditure which for the year 2010-11 amounts to Rs. 76 billion. Apart from the financial repercussions, management of transferred subjects also poses a huge capacity challenge in the transitional phase.

The province also faces a serious task of reconstruction after the devastating floods of the previous financial year. Security compulsions imposed by the precarious law & order situation are still of an astronomical proportions consuming a larger share of the provincial financial resources. During FY 2009/10, an amount of Rs. 9,677 million was spent on Police which increased to Rs. 17096 million during FY 2010/11. Projections for FY 2011/12 reflect an increase of 48.5 percent in recurrent expenditure of police.

Beset with the onerous tasks of rehabilitating the flood victims, compensation for terrorist attacks' victims and a continuous drain on resources by prevalent Law&Order situation, provincial economy is estimated to grow by 2.5 percent during the current financial year. During the financial year 2010/11, spending through Provincial Disaster Management Authority (PDMA) stood at Rs. 5,519 million; Rs. 267 million paid to bomb affectees only. Insecurity wreaks havoc with lives and businesses of people and imposes a cost in damaged public property along with lost provincial receipts from decline in GDP. According to the Cost of Conflict Report, 2009, total fiscal impact of the conflict amounted to Rs. 142.2 billion.

## **6. Contours of Economic Growth Strategy:**

Provincial Government set itself the clear path to deal with the challenges and turn the economy around by ensuring the seamless transition of devolved departments; improve service delivery through strategic allocations to growth sectors and make the province self-reliant through investments in energy sector.

It is based on an appreciation that the province holds abundant natural resources which may be developed to establish light, high, value added industries. The resources which are located in mostly poor areas of the province will provide employment to the labor in those areas. Their skills may have to be adapted to the needs of the relevant industries.

The strategy recognizes that growth in the sectors depending on indigenous raw materials will be a route to attain higher rate of growth. GoKP identifies following growth sectors based on natural resource endowments of the province:

1. Minerals & Oil&Gas
2. Value added industrial sectors e.g. processing of minerals, agro processing industries, Horticulture and Livestock
3. Tourism

Infrastructure related sectors have also been identified to simultaneously develop through increased investments and complementary institutional policies. Supporting the main growth sectors of economy, they will become major drivers creating jobs and enhancing development:

1. Energy & Power (Hydroelectric power generation)
2. Water (Irrigation),
3. Transport,
4. Labour,
5. Science and Technology & Information Technology

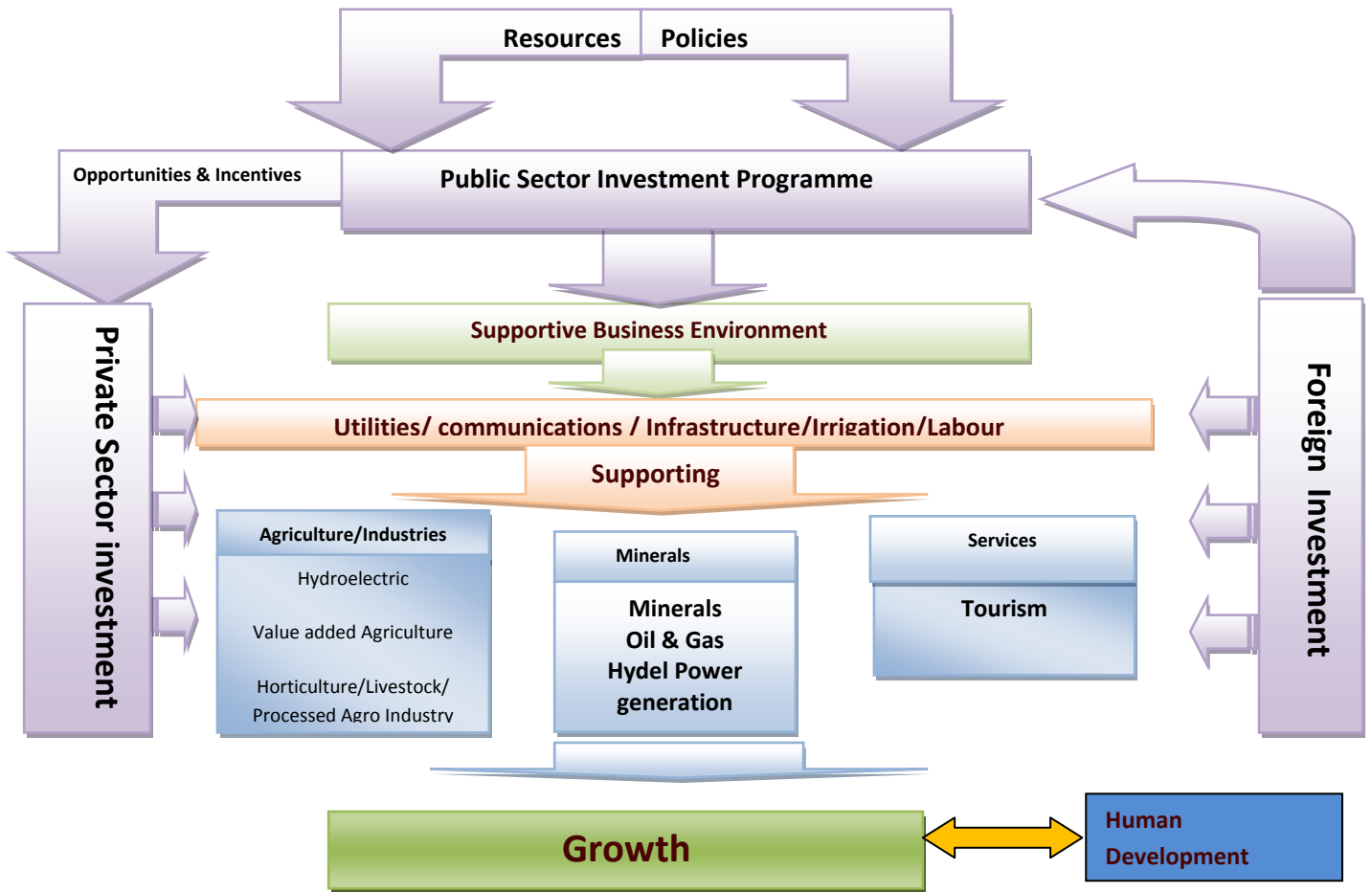
GoKP is fully aware that human development and growth are mutually reinforcing; growth promoting human development and vice versa. Instead of adding quantity, the government intends to eliminate the waste and ensure that value for money is realized in social and human development sectors i.e. Education, Health, Water Supply & Sanitation and Population Welfare. It recognises that despite higher development outlays in Social Sectors over the years, province's social indicators are

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disappointing. The strategy proposes to achieve the optimal utilization of investments by a policy of Consolidation and Rationalization in social sector spending.

Appreciating that Private sector can become an active partner, GoKP envisions to perform the role of a facilitator and catalyst to foster a business and investment friendly environment for private entrepreneurs through reforms to remove the entry barriers; ensure contract enforcement; improve internal security and provide basic infrastructure facilities.

Fig 2. Economic growth Framework



EGS will adhere to following broad parameters:

- 1. Promotion of growth sectors with comparative advantages of indigenous raw materials e.g. Minerals*
- 2. Investments into value added industrial sectors i.e. Livestock, Horticulture, Dairy processing, light and high value mineral products.*
- 3. Focus on developing the competitive advantages for industrial sectors through reduced input costs related to Energy and Power, Water, Transport*
- 4. Focus on Improving the skills level of the Labour force through greater emphasis on Technical and Vocational education/training*
- 5. Achieving Consolidation, Rationalisation of the public spending to do away with inefficiencies; Improving the service delivery instead of piling up resources into brick and mortar.*
- 6. To create an enabling, business friendly environment for private sector enterprises*

## **7. Cross-Cutting Constraints**

Specific actions and policies proposed in various sectors are an effort to address several cross-cutting constraints hampering the development of growth sectors and entrepreneurial activity of industrial, value added sectors of the economy:

1. Poor Infrastructure
2. Low Human resource base and skills levels
3. High insecurity

4. Unreliable supply of utilities i.e. electricity, communication and water
5. Weak public-private collaboration

## **8. Annual Development Programme to reflect the strategic priorities for accelerating growth:**

The strategy marks a paradigm shift in Public investments and advocates improvement in Service Delivery instead of archaic Brick and Mortar development policy. In line with the broad parameters, ADP will reflect the strategic priorities:

1. Consolidation vs. Expansion which characterizes improvement in existing facilities.
2. Reduction in throw forward by allocating more resources to ongoing project i.e. 70% of ADP.
3. Rapid increase in development allocations to the sectors where there is higher return on investment i.e. Hydro electricity, Oil and Gas and the sectors which rely on indigenous natural resources/raw materials i.e. Minerals
4. Improvement in management of Public Finances through Output based Budgeting extended to Development budget.

With the availability of additional resources it has become possible to realign the development priorities in a way to exploit the unexplored minerals wealth and other natural resources i.e. Oil&Gas. The proposed development framework alters the historical pattern of allocations in favour of more efficient and high return investment in sectors which can contribute to GDP growth, employment creation, skills generation and possesses prospects for the development of areas housing natural resources.

Education, Health and Sanitation hold higher proportionate shares of total ADP allocations i.e. 18 percent in 2010/11 as compared to 4.1 percent allocated to Industries, Agriculture and Mines (Fig. 2). With the objective of Consolidation, the resources in social sectors will be used efficiently to consolidate the gains already made. Consolidation will imply enhancing the quality of education by better trained teachers and filling gaps in provision of schools in localities which suffer from shortages. Besides, where public school buildings are provided, these face the inadequacy of infrastructure as has been outlined in section 3.4. Missing facilities will be provided on priority basis in existing schools.

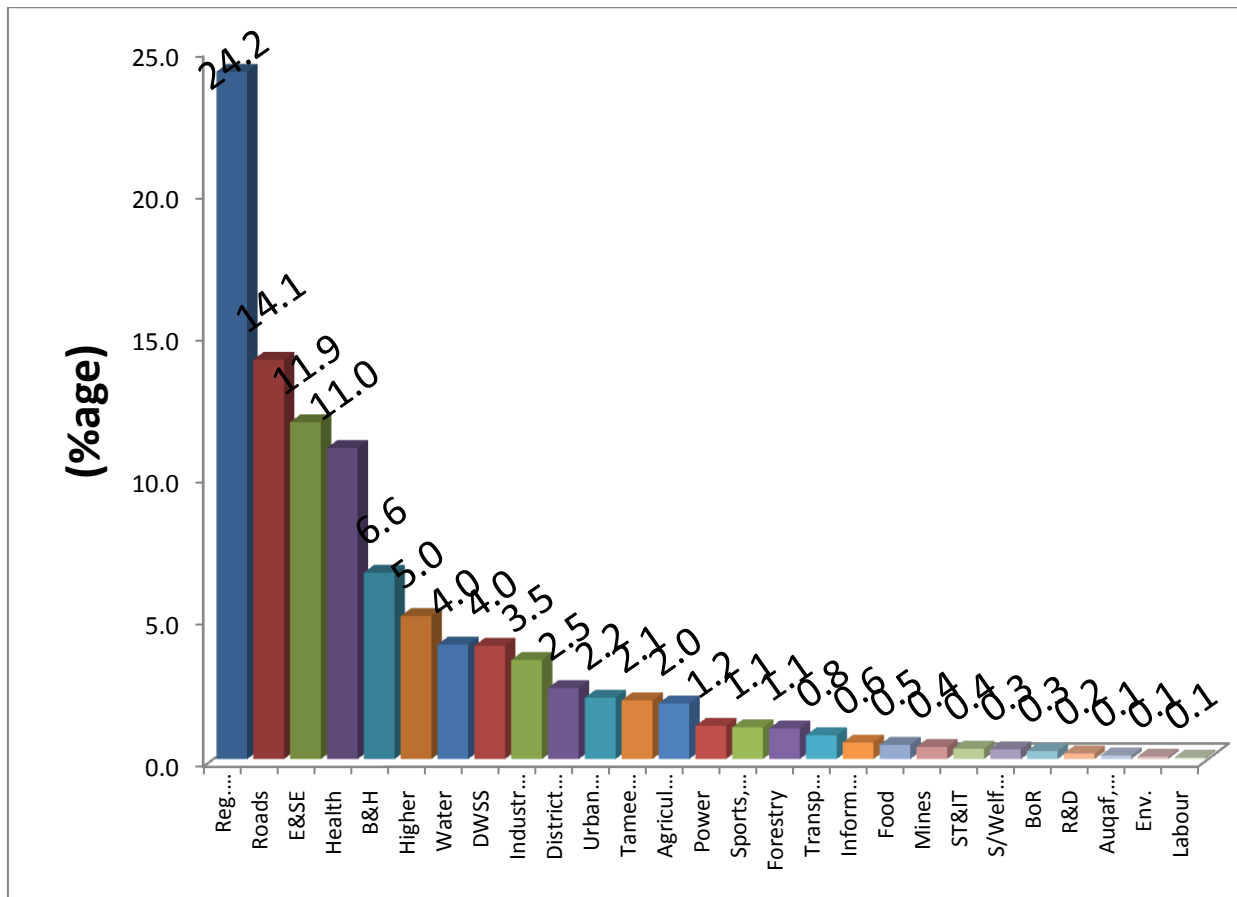


Fig. 3. ADP 2010/11 Sectoral shares

### 8.1 Improvement in Public Financial Management:

To improve service delivery and governance, budgets will be result-oriented through Output based budgeting. OBB links spending to the goals, outcomes and outputs of the respective sectors. This will help the departments allocate scarce resources to attainment of goals and objectives and improving service delivery by improved monitoring and evaluation. Starting with three departments in 2010/11, OBB has been extended now to twelve departments.

## 9. Productive, Growth Sectors of Economy:

### 9.1 Industries

Manufacturing industries of the province suffer from locational disadvantages made worse by infrastructural inadequacies. There is a tremendous scope for development of the potential industries

based on rich natural resource endowments and traditional industries, most notably Construction, Tobacco industries and farming activities. Construction providing employment opportunities to the industrious labour of the province requires steps to improve productivity of labour and capital. Among manufacturing industries, Cigarettes and Cement have historically formed the manufacturing base of the province. To exploit the resource wealth of the province whether be in Minerals based on the gem stones, dimensional stones, industrial materials i.e. Feldspar, phosphates, coal, rock salt, chromite or Hydropower generation, GoKP intends to significantly expand the range of manufacturing activities. In doing so, provincial government will lessen the extraordinarily high costs of inputs for production which arise due to infrastructure inefficiencies e.g. power, basic utilities, transportation networks. To this end, provincial government aims to establish new, efficiently run industrial estates and upgrade the existing ones.

## **9.2 Minerals Development:**

KPK has important resources of dimensional stones e.g. marble and granite, precious stones and metals, some industrial minerals, energy minerals and salt. There are 100 million tones reserves and 1 billion tones reserves of two other types of marble. Northern districts of KPK have abundant reserves of granite reserves.<sup>8</sup> Currently 900 prospecting licenses and 430 mining leases are granted.

Resources of marble could form basis for a flourishing industry. However the development of the sector is constrained by use of inefficient technology i.e. blasting as the common extraction technique which results in destruction to the material and lack of skills to finish and polish the stones. The cost of transporting marble from mines to places for polishing and finishing the stone or if exported, gets higher due to dilapidated roads network in those areas. Consequently, KPK is currently not reaping the full benefit and value of its resource.

Minerals, though contributing a small percentage to GDP (0.1 % of GDP) at present, hold enormous growth potential. Location of mineral resources in the poorer areas of the province offers the employment prospects for unemployed poor in the likely increase in Mineral extraction as well as the spillover benefits through infrastructure development provided for Mining and Quarrying.

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<sup>8</sup> CDS 2010-17

| Table 4. Major Minerals - KPK |   |                                     | Pakistan                              |                               | % Share of KPK |       |
|-------------------------------|---|-------------------------------------|---------------------------------------|-------------------------------|----------------|-------|
| Type of Mineral               | Gross value of Production (GVP) ('000' Rs.) | Gross value added (GVA) ('000' Rs.) | Gross value of Production ('000' Rs.) | Gross value added ('000' Rs.) | GVP %          | GVA % |
| All minerals                  | 8,403,463                                   | 6,709,334                           | 219,815,854                           | 187,920,703                   | 3.82           | 3.6   |
| Coal                          | 580,192                                     | 6,537                               | 8,052,565                             | 5,804,145                     | 7.2            | 0.11  |
| Crude Oil                     | 1,703,564                                   | 679,218                             | 36,761,238                            | 28,944,422                    | 4.6            | 2.3   |
| Lime Stone                    | 2,346,288                                   | 31,462                              | 11,035,742                            | 9,600,024                     | 21.3           | 0.32  |
| Marble                        | 837,771                                     | 30,249                              | 1,132,531                             | 1,038,398                     | 74.0           | 3.0   |
| Natural Gas                   | 2,028,499                                   | 859,254                             | 155,653,265                           | 136,039,416                   | 1.3            | 0.63  |
| Others                        | 907,149                                     | 25,798                              | 7,180,513                             | 6,494,500                     | 12.6           | 0.4   |

Source: Census of Mining & Quarrying 2005/06

During 2005/06, the share of province in Gross Value of Production (GVP) and Gross Value Added (GVA) in all minerals in Pakistan stood at 3.82 and 3.6 percent respectively. Among the key mineral, major contribution to GVP came from Marble i.e. 74 percent while its share in GVA was only 3.0 percent. Similarly, Limestone contributed 21.3 percent to the aggregate GVP of Minerals with a meager share of 0.32 percent of aggregate GVA (Table 5). Clearly, there is a strong case to take measures for improvements in the Value Addition of major minerals.

During FY 2010/11, out of 972 projects funded through ADP, Mines and Minerals had only 11 projects with an allocation of Rs. 255 million at .42 percent of ADP. There were eight new projects and three ongoing projects with a dismal, overall utilization rate of 0.9 percent. Given the enhanced attention to developing the sector as a growth driver, a sizeable shift in investment share of Mines & Minerals will be effected.

GoKP will take the following steps to achieve the objective of a dynamic Mineral Sector:

- Sectoral Evaluation will be carried to chalk out a clear roadmap. Consultations will be held with the existing players, investors and stakeholders to evolve a workable strategy for modernization of the sector.
- The issues of property rights, licenses and leases to the excavation sites will be resolved to create incentives for investors.

- Development of Pre Feasibility studies on value addition of different minerals to guide and facilitate potential investors.
- The infrastructure i.e. roads, power and water in the location of mineral reserves will be improved on priority basis to lessen the transportation costs.
- Modern Extraction techniques will be introduced and encouraged to avoid the wastage and damage to the materials.
- Establish an institute of Mineral Management for training professionals involved in extraction and processing of minerals.
- Foreign technical assistance will be solicited to establish an efficient and technologically equipped Minerals' sector.
- Introduction of a lending package under special initiatives with soft terms for investors for up-gradation of technology and productivity in the mining sector.

### **9.2.1 Oil & Gas**

The province prides on having 6.76 percent of the total area under exploration for potential Oil&Gas reserves with potential to produce one billion barrel oil and four trillion cubic feet gas. 18<sup>th</sup> Amendment now provides equal entitlement to Oil&Gas revenues offering huge growth prospects for the economy.

Oil & Gas Development Company (OGDCL) holds the largest stake in exploration activity. Oil&Gas sector can be a prime incoming source of foreign direct investment. To facilitate the investors, Government pursues the policies of public-private partnership to build infrastructure in the districts where reserves are discovered. In this regard, Petroleum Social Development fund created by production bonuses from the exploration companies will be spent through Petroleum Social Development Committee for development of infrastructure.

### **9.3 Value addition in Agriculture**

Agriculture employing above 40<sup>9</sup> percent of the labour force and contributing more than 20 percent to provincial GDP, is one of the key drivers of growth and an excellent opportunity to practice the diversification into areas with comparative advantages of climate. To accelerate growth, it is critical to vigorously pursue the change in the structure and composition of agricultural products/outputs. No

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<sup>9</sup> LFS 2008/09

official estimates of contribution to GDP are available but anecdotal evidence suggests that over the last two decades, contribution of major crops to GDP i.e. wheat, maize, barley, rice and millet declined while that of livestock increased. Fruit production has also significantly increased. Despite initiation of diversification into high-value fruits and vegetable production, the province largely remains cereal producer. In that too, yields, particularly in arid plains and mountains are lower than the irrigated areas. In half of the districts, more than 50 percent of agricultural land is unirrigated exposing the agricultural livelihood means to weather-induced risks i.e. drought.

Experience with **Horticulture** in the province provides promising evidence to expand the policy of its support and promotion. Both the income and employments effects are realized through this diversification since Horticulture provides more income per hectare and requires more labour input.

Agriculture Policy (AP) 2005 outlined short and medium term policies and strategy for Agriculture sector, emphasizing the move towards diversification. The AP recommended to support the production of high value products e.g. seeds & saplings (onions, fruit seedlings), floriculture, agro-forestry, milk, sheep and goat meat, kashmiri wool, honey. Besides, policy and institutional reforms were to be carried out to improve business environment for private sector ; to support small scale agro-processing industries through technology transfer and assistance with start-up costs. More than five years on, it is time **to evaluate the implementation of the recommendations of AP** and strategies recommended therein.

With a lesser cultivable area and growing pressure thereof, a two-pronged strategy is essential; policies to maximize return from cultivable land and promoting activities not intensive in land use.

- Expanding irrigation networks to 4.33 million acres rain-fed areas – essential to increase productivity and support diversification into higher value crops.
- Introduction of modern technologies to conserve water ( A possible role for the donors to step in) ; small dams and spate irrigation.
- Producing a Water resource master plan and MIS to ensure maximum benefits from the investments.
- Continue the move towards crops with higher return i.e. Horticulture; Easy credit to owners of fruit orchards to move up the value chain and start processing of fruit products; alternatively encourage outside investors to start up processing near areas rich in fruit production

- Promotion of off season vegetables through ‘Tunnel Farming’ by providing incentives and technical guidance to investors/farmers
- Providing support for household businesses – for small scale agro-processing industries e.g. fruit drying, production of fruit jams and fruit juices
- Support for the ventures promoting livestock activities where rural women are mostly engaged – investing in this area to convert women work into economic potential
- As recommended in the Agriculture Policy – continue encouraging the diversification into floriculture ; agro forestry, milk, sheep and goat meat, kashmiri wool, honey
- Promoting the dairy sector: encouraging private entrepreneurs to venture into processed dairy products through easy credit and facilitation in setting up milk-processing and dairy products’ plants.
- Livestock farming: though a major source of livelihood requires technological productivity improvements by high quality breed and improvement in fodder – ( a possible area where donors’ cooperation can be solicited ); promotion of environmental poultry farms by giving interest free loans to investors
- Instituting a system of crop insurance to reduce the vulnerabilities of the small and medium farmers.
- Incentives for private sector to establish and expand Cold Storage facilities ; a strategy to support establishment of controlled atmosphere storages and other components of cool chain
- Critical evaluations of defunct/incomplete public sector projects and development of a policy to revive these projects through public funding or in partnership with private sector.
- Increase the cultivated area of the province by development of culturable waste land resource by use of heavy machinery e.g. bulldozers, power winches.
- Research to develop seed varieties capable to perform under stress and water deficient conditions

#### **9.4 Tourism**

Abundance of natural touristic sites in the province could have transformed the sector into a major driver of growth provided the security situation has normalised and internal conflict subsided. Currently, the potential to turn it into an internationally attractive sector are severely curtailed. In the calmer areas unaffected by law and order situation, domestic tourists can be attracted which can open the sources of employment and incomes for the population of these areas.

- To develop clean and attractive tourist sites, private sector can play a significant role. GoKP has entrusted Sarhad Tourism Corporation with providing the tourist infrastructure facilities in KP. However, private sector will be invited for investments to invest in tourism development projects and lodging facilities of tourists while role of STC
- will be restricted to only monitor and regulate. Although private sector owns 90 percent of the Tourism and Hospitality industry but its investment is restricted only to Hotel and Transport facilities.
- There is no data available on tourist arrivals, spending and visits or assets to facilitate the priorities in different types of tourism e.g. Ecotourism, mountain climbing, cultural tourism etc. In order to document the potential of different kinds of tourism and to adopt differential approach to target each, a survey will be conducted.
- To sell the province through an aggressive marketing campaign, a tourism related Marketing department within the ambit of STC will be created.

#### **9.5 Science and Technology and Information Technology (ST&IT)**

Largely conforming to Comprehensive Development Strategy of ensuring a better connected citizenry and well coordinated government departments through provision of e-government infrastructure, GoKP promotes ST&IT as an essential instrument to achieve sustainable growth. Starting from a lower base in the area of information technology, it requires concerted and comprehensive effort to accelerate the progress. The government plans to develop IT capacity building programme involving training of GoKP employees in relevant IT skills, establishment of IT university and providing computer laboratories in high schools and colleges. To develop e-government infrastructure, highly sophisticated initiatives such as establishment of high speed online data centres for government and computerization of all government departments are envisioned. It is expected that at an advanced level of achievement in ST&IT, e-services i.e online application forms , form filling etc will be identified and provided to the general public.

Government is committed to developing software industry with an enhanced emphasis on promotion of local software houses. For the purpose grant loans will be provided to establish new software houses and IT parks will be set up. Private sector investments and international projects will be attracted through specific incentives.

Realising the need for increased spending to implement the IT promotional policies, the sector has been placed among the group 'productive sectors' implying enhanced public spending while the sector is also open to muster foreign assistance in the form of grants as well as commercial loans (annex 1).

## **10 Supporting Infrastructure :**

### **10.1 Energy :**

KPK possess hydroelectricity generation capacity which if exploited can provide the power for industrial sector at a lower price offsetting the competitive disadvantage of industrial sector. Out of the total installed capacity of about 20,000 MW in Pakistan, 30-35 % comes from hydroelectricity. Hydroelectricity generation capacity for KPK is estimated to be 25,000 MW<sup>10</sup>. Existing Hydel stations in Tarbela, Warsek, Dargai and Malakand located in the province are connected to the national grid line.

KPK is now receiving the long overdue Hydel profit arrears amounting to Rs. 110 billion. The entire amount will be remitted to the province over a period of four years starting from FY 2010/11 into equal annual installments of Rs. 25 billion. After FY 2013/14, the province will only be receiving annual Rs. 6 billion in terms of Hydel profits. To avoid absorbing the windfall gain into budget and forecasting the resource allocation on the basis of this one off payment which will not be available after three years, GoKP will reinvest Rs. 60 billion of the arrears in new Hydel capacity.

'Policy for power generation 2002' made it possible for provinces to manage investments of up to 50 MW. The province can benefit by attracting investors through promising incentives. KPK can also set up stations which could sell electricity within the province at a lower rate. This lower price of electricity can boost the industrial sectors by offsetting the higher transportation costs due to landlocked status of the province.

In line with the broader objectives of CDS, to attract private investors into the Power sector and exploration of Oil and Gas, GoKP will ensure a business enabling environment with incorporation of legal and institutional framework to back up the policy:

- All new hydroelectric private plants of capacity from 1MW to 50 MW on the basis of Build-Own-Operate-Transfer basis

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<sup>10</sup> CDS 2010-17

- To resolve the issue of cost bearing related to wheeling, transmission and distribution charges for plants upto 50 MW, consensus and coordination among the stakeholders i.e. the potential investors, NTDC, NEPRA, PESCO and industrial estates, will be ensured.
- Role of SHYDO in effectively attracting private investments for plants below 50 MW will be evaluated.
- A one window facility to be created to guide potential investors on hydel projects
- Development of feasibility studies for viable sites

## 10.2 Irrigation/Water

Despite providing livelihood to 83 percent of the population residing in rural areas, the productivity of Agriculture sector remained severely hampered by inefficient irrigation system. Out of total Cultivable land i.e. 2.75 million hectares, only 1.8 million hectares is cultivated while remaining 1.08 million is cultivable wasteland. The province's 49 percent or 4.9 million hectares of land is categorized as rain fed and mainly depends on timely rains exposing large rural population to weather induced risks.

Low Efficiency of water management and lack of modern technologies to conserve water result in lower productivity in Agricultural sector. To maximize the area under cultivation through expansion in irrigation networks and introduction of water conservation technologies are the cornerstones of Economic Growth Strategy. GoKP will bring cultivable wasteland into farming and increase area under cultivation through:

- Greater Provision of irrigation water by improving water courses; developing soil conservation structures; installation of dug wells.
- Construction of water storage tanks
- To construct small dams for irrigation and power generation
- To exploit the rainfall conservation potential by erecting flood diversion structures to protect against floods and utilize rainfall
- Modern irrigation technologies such as installation of Sprinkler Irrigation System and Lift irrigation schemes
- Precision land leveling with the help of bulldozers, power winches and laser land levelers

- To develop an integrated Management Information system in the sector for efficient water management

### **10.3 Transport**

Landlocked status of the province and poor road conditions create competitive disadvantages for the industrial sector. It assumes particular importance keeping in view the emphasis on resource based industries e.g. Minerals. Transportation costs from the mines to the processors increase manifold not by poor infrastructure and payment of special fees to move the mineral products from the mining areas to the processors.

GoKP envisages the provision of affordable, reliable and safe transportation means for delivery of goods and mobility of people. In this respect, it will:

- Strengthen transport regulatory authority
- Integration of key transport service delivery units and business development units
- To devise an efficient mechanism with exploration companies working in mineral rich areas based on public private partnership for infrastructure development.

In addition to the above, GoKP will take measures consistent with the priorities enlisted in CDS such as initiatives for upgrading of t-business networks, strengthening of t-business value chain and enabling t-business to enter formal sector.

### **10.4 Labour:**

Labour being the main asset of the poor, conditions need to be created to upgrade the skill levels of unskilled labor to facilitate their participation in the non-farm activities and increasing their access to remunerative non-agricultural employment. Employability of the labour in growth sectors requires to be enhanced through:

- Establishing technical training institutes and vocational training centres to provide training to the labour in areas of proposed higher investments keeping in view the market demands.
- Incentives provided to private entrepreneurs to offer on-job trainings to the low skilled workers.

- Introducing technical and vocational studies in addition to the standard curriculum at Middle level

## **11 Growth and Human Development:**

Empirical evidence indicates that rapid growth can lead to income inequality in the short run unless it is broad based through investments in human development generating a ‘virtuous circle’ accelerating progress. Effective policies of human development are a vital component of KPK growth strategy which recognizes that sustainable growth can serve as a powerful instrument for poverty reduction when accompanied by policies/programmes to enhance the capabilities of and opportunities for poor especially in Health, Education, Population Welfare

Simultaneous improvement in human development sectors is also crucial for the core government policy to attract investors to the new growth sectors of the economy as it will ensure supply of skilled educated workforce as well as availability of human development related facilities. However, analyzing the fact that investments in Education and Health in the past have had little effect on growth indicating low rate of return, GoKP adopts a paradigm shift that quality of services is as important as the quantity. The weak link between continuous increase in public spending and low Health and Educational outcomes necessitates measures to improve spending efficiency and quality and make it carefully targeted.

### **11.1 Education & Health:**

Status of Social sectors i.e. Education and Health, despite the fiscal targeting and higher development allocations begs the question to realign the priorities and try different solutions of reaching the ultimate goals of a well-off population at a higher level of human development provided with efficient services but without wasting the scarce resources. At the core lies the endeavour of the provincial government to position the fiscal resources to have optimal effect on the linkages between growth and human capital improvements.

In 2010/11, there were 92 projects in E&SE and Higher Education ( 55 and 37 respectively) with a combined allocation of Rs. 10,135 million (Rs. 7115 million and Rs. 3020 million respectively) marking a good 16.89 percent of ADP. There are 43 ongoing and 12 new projects in E&SE whereas Higher Education started 18 new projects in 2010/11 with the existing 19 ongoing projects. Absolute expenditures in education, Development as well as Current spending reflect a rising trend over the last many years. Educational outcomes and indicators have failed to keep pace with increased spending.

To maximize the impact of public spending, the government will initiate:

- Mapping the school buildings – identify the areas where a new school might be needed and where excess number of schools are provided. Closing the unnecessary schools and opening the new ones in areas of shortage, preferably in rented buildings.
- Provide for the missing facilities in existing schools to enhance enrolment levels
- Ensure the standard teacher student ratios are maintained –
- Lessening of teachers’ absenteeism through providing performance incentives.
- To improve the quality of teaching, teachers’ training on new concepts; Modules to be developed introducing modern concepts of learning and teaching at elementary levels.
- Linked to the perception of parents about returns to education – efforts to increase returns through offering vocational education along with regular curriculum
- Collaborate with private sector; Replicating the success story of Punjab Education Foundation in providing quality education and as an example of public-private partnership in Education sector.
- Renewed emphasis on Technical Education; Introduction of new trades, technologies and courses to respond to training needs and market oriented subjects at college level
- Establishing technical and vocational institutes equipped with facilities to train out of school youth in skills according to the market demands
- Including apprenticeship training system in small and medium enterprises
- Provision of modern facilities at colleges including wireless internet, computers and well equipped labs.

Health indicators of KPK in MDG goal of Reducing Child mortality i.e. under five mortality rate and infant mortality rate, proportion of fully immunized children, proportion of children suffering from Diarrhoea depict a slow progress. Similarly, on Maternal Mortality indicators i.e. Proportion of births attended by Skilled birth attendants, Contraceptive Prevalence Rate and antenatal care coverage, the province does not fare well.

Traditionally, provincial Health sector has focused on curative health care while preventive and promotive healthcare was given less priority in the past. Constraints on Primary health care provided through a network of primary health care facilities in rural areas, there are increasing pressure on secondary health care in urban areas.

GoKP prioritizes health service provision by a National Health Policy in 2009 stressing importance of good governance, health care quality, equity of access and reducing the burden of diseases. To improve Health sector planning and management;

- Health management cadre will be implemented'
- monitoring and evaluation mechanisms will be strengthened;
- District Health Information system will be implemented;
- quality standards in primary, secondary and tertiary health care facilities will be ensured; Health facilities will be upgraded and new facilities will be established on needs basis.
- Capacity of the provinces and districts to all the emergencies , epidemics and disasters
- Better accessibility to the Essential Health Services Packages through availability of funding, strengthening of Health foundation and better coordination with the private sector and NGOs
- Staff will be recruited for service delivery with special emphasis on female health care providers at the primary care level and specialists at secondary care levels.

In addition to the above, Provincial Government will spend 5 percent of the net hydel profits in the districts where dams are located for Technical Education, Health facilities, Roads, Scholarship for the affectees, water supply schemes, electricity and supply of gas.

## **12 Social Protection and Growth:**

Helping vulnerable groups against rising living costs, protect them against shocks and promoting investment in human and physical assets are complementary policies of the new strategy with the aim to enhance resilience of the poor. Social protection policies of the province build on the assertion that shocks reduce the productive capacity of poor and vulnerable by inducing risk mitigating, coping strategies e.g. selling productive assets of households, taking children out of schools and reducing nutritional intake having an impact on earnings. Provincial social protection programmes reflect the policy to help and enable the excluded ones to participate in economy productively by providing a basic level of support. Shocks and its fear cause risk avoidance among poor and inefficient investments with lower returns. Provision of social protection maintains a basic level of consumption and encourages poor to invest in high return profitable activities and small scale businesses, hence contributing to growth.

GoKP has already launched wide ranging social protection and welfare programmes; credit schemes to generate employment i.e. Bacha Khan Khapal Rozgar scheme and Pakhtunkhwa Hunermand rozgar scheme; in-kind schemes in the form of free text books and vouchers for girl students and tuition fees in the private schools; skill development programmes i.e. Pakhtunkhwa Morusi Hunermand scheme and free of cost trainings to deserving youth in high demand technical skills; Cash stipend to unemployed post graduates and subsistence allowance to senior citizens. Various schemes cater for social health protection to the poor; insurance scheme with the help of KFW; free treatment for poor through zakat funds; nutritional services in six districts through Multi-Donor Trust Fund and free cancer treatment to eight hundred patients. Many of the programmes complement the social sector policies such as enhancing the enrolment levels, narrow the gender gaps and enhance the skills level of youth.

To achieve the intended outcomes of protection related programmes/schemes, GoKP will ensure:

- Needs assessment for the purpose of providing differentiated social protection and assistance
- Accurate targeting; robust designing and delivery systems
- Maintain an efficient monitoring and evaluation mechanism for the programmes
- Continued social assistance to integrate the vulnerable, marginalized groups and productive but unemployed youth in the mainstream development.

### **13 Government of KPK as a Facilitator for Private Sector Enterprises:**

Development of Private Sector enterprises and private investment decisions are largely affected by the policies of government shaping the investment and business climate. Natural resource endowment of KPK offers the prospects to attract private investment while the poor infrastructure and unfriendly business environment with cumbersome procedures hold back the potential investments. Regional instability and worsening law & order add to the obstacles of administration barriers, transportation and weak contract enforcement.

Overall, Pakistan ranks 83 in ‘ease of doing business’ according to the ‘Doing Business Report’ of World Bank (2009). This compares well with other South Asian Countries such as India at 134, Nepal at 116 and Sri Lanka at 102. China at 79 is only slightly above Pakistan. However status of Pakistan in terms of disaggregated indicators i.e. starting business, getting credit, paying taxes and protecting

investors is an evidence of formidable entry barriers and obstacles hindering private investment and growth of a dynamic private sector.

The restrictive environment in which private sector finds itself emanates from the predominant role of government as an economic actor involved in activities long privatized in developed and other developing countries i.e. Transport, Construction, and Financial Services. This is especially true in case of KPK. Formidable presence of government in business activities deters competitive environment and creates monopolies with dominant market shares; State managed National Logistic Cell as a logistics provider, Bank of Khyber as the largest state-owned bank, SDA as the largest state managed industrial estate.

To provide a friendly business environment and facilitate private investments and investors, GoKP will:

- Curtail the excessive presence of government in areas where private sector can take lead e.g. Energy, Minerals, Tourism, High value added sub-sectors in Agriculture
- GoKP will reposition its role ; enlarge its functions as a regulator and provider of essential public goods
- Establishing clear property rights in resource rich areas
- Reduce and streamline administrative burdens on firms to encourage formalization of the informal businesses
- Create a special unit – to assist the potential investors in fulfilling the legal/regulatory processes with critical time guarantees, essentially reducing the time to start businesses.
- Providing a menu to categories ranging from medium to large investors in each sector – giving them choices where to invest and assist them in finding sights for plots/buildings etc.
- Incentives – Tax breaks for a specified period and grants by GoKP , equally matching the quantum of invested funds
- GoKP to provide the necessary infrastructure in mineral rich regions/sites to attract the investors.
- Security/Insurance to be provided to investors to protect the investment being made by private sector

To create a business friendly environment through an institutional framework, GoKP will:

- Establish a Business Forum/Council with equal representation from government and private sector.
- Working groups will be formed under the auspices of the council to analyse the barriers, procedures and constraints hindering penetration of private sector, inflow of investments and public-private partnership.
- Subsequent to evaluations by working groups, policies and recommendations will be drawn to reform business climate in each sector.
- Business Forum will draw its power from the Chairmanship of Chief Minister/Chief Secretary to ensure implementation of the policies worked out.

#### **14 Conclusion:**

Growth policy based on resource endowment of the province is essentially targeted to the sectors with comparative advantages of indigenous raw materials and natural resources. It presumes a significant increase in total investment in productive sectors i.e. Mines and Minerals, Oil & Gas, Industry, Tourism supported by simultaneous measures to build the infrastructure related sectors e.g. Transport, Energy & Power, Labour. Private and public investments will be encouraged and supported through business friendly policies. In real sectors of economy, Industry and Agriculture, high value added sectors will be given special attention through provision of incentives and access to credit. To provide an educated and skilled workforce for dynamic growth sectors, technical and vocational training will get greater emphasis. Sector specific investments will result in job creation for the unemployed youth, leading to decreased unemployment and poverty levels. Through its emphasis on consolidation and rationalization instead of expansion, the strategy would lead to improved spending efficiency. The increase in real GDP growth, falling unemployment and decreased poverty levels would result in per capita income increases and better social service delivery.

**Annex. 1**

| Economic Growth Framework  |                                   |   |                               |  |                               |
|--|-----------------------------------|---|-------------------------------|--|-------------------------------|
| Productive Sectors   |                                   | Socio- Economic   |                               | Social Sectors   |                               |
| 1.   | Energy & Power ( all sub sectors) | 1.  | Agriculture                   | 1.   | Education                     |
| 2.   | Water                             | 2.  | Food                          | 2.   | Health                        |
| 3.   | Minerals                          | 3.  | Roads                         | 3.   | DWSS                          |
| 4.   | Industries (all sub sectors)      | 4.  | Environment (all sub sectors) | 4.   | Sports                        |
| 5.   | Labour                            | 5.  | Building                      | 5.   | Aqua                          |
| 6.   | ST&IT                             | 6.  | R&D                           | 6.   | Information                   |
| 7.   | Transport                         | 7.  | Urban Development             | 7.   | Social Protection Initiatives |
| 8.   | Housing                           |   |                               |  |                               |
| 9.   | Tourism                           |   |                               |  |                               |
| <b>Areas Open for investment from:</b>   |                                   | <b>Areas open for investment from:</b>                    |                               | <b>Areas open for investment from:</b>                 |                               |
| 1. ADP (Inc. 70%)<br>2. PSDP (50%)<br>3. Donors ( grants/may even opt for commercial loans |                                   | 1. ADP (inc. 30 %)<br>2. PSDP (30%)<br>3. Donors (grants) |                               | 1. ADP (capped)<br>2. PSDP (20%)<br>3. Donors (grants) |                               |

## Annex 2 . Medium Term Fiscal Framework

|   | <b>B E 2010-11</b>       | <b>2011-12</b>           | <b>2012-13</b>           | <b>2013-14</b>           |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Revenue</b>                            |                          |                          |                          |                          |
| <b>Federal Tax Assignment</b>             | 123,436.00               | 140,717.04               | 160,417.43               | 182,875.87               |
| <b>Straight Transfers</b>                 | 9,368.00                 | 10,679.52                | 12,174.65                | 13,879.10                |
| <b>GST on Services</b>                    | 12,325.00                | 14,050.50                | 16,017.57                | 18,260.03                |
| <b>Provincial Own Receipts</b>            | 7,231.00                 | 7,664.86                 | 8,124.75                 | 8,612.24                 |
| <b>Net Hydel Profit</b>                   | 6,000.00                 | 6,000.00                 | 6,000.00                 | 6,000.00                 |
| <b>1% Grant for War on Terror</b>         | 15,229.00                | 17,361.06                | 19,791.61                | 22,562.43                |
| <b>Net Hydel Profit Arrears</b>           | 25,000.00                | 25,000.00                | 25,000.00                | 25,000.00                |
| <b>General Capital Receipts</b>           | 400                      | 400                      | 400                      | 400                      |
| <b>Foreign Project Assistance</b>         | 9,283.00                 | 10,211.30                | 11,232.43                | 12,355.67                |
| <b><u>Total Receipts</u></b>              | <b><u>208,272.00</u></b> | <b><u>232,084.28</u></b> | <b><u>259,158.44</u></b> | <b><u>289,945.34</u></b> |
| <b>Salary</b>                             |                          |                          |                          |                          |
|   | 76,000.00                | 86,640.00                | 98,769.60                | 112,597.34               |
| <b>O&amp;M</b>                            |                          |                          |                          |                          |
|   | 22,897.00                | 27,476.40                | 32,971.68                | 39,566.02                |
| <b>Pension</b>                            |                          |                          |                          |                          |
|   | 11,000.00                | 12,100.00                | 13,310.00                | 14,641.00                |
| <b>Interest Payment</b>                   |                          |                          |                          |                          |
|   | 9,660.00                 | 10,626.00                | 11,688.60                | 12,857.46                |
| <b>Subsidy</b>                            |                          |                          |                          |                          |
|   | 2,500.00                 | 2,625.00                 | 2,756.25                 | 2,894.06                 |
| <b>Investments</b>                        |                          |                          |                          |                          |
|   | 5,900.00                 | 6,195.00                 | 6,504.75                 | 6,829.99                 |
| <b>Current Capital Exp</b>                |                          |                          |                          |                          |
|   | 11,032.00                | 11,583.60                | 12,741.96                | 14,016.16                |
| <b><u>Total Recurrent</u></b>             | <b><u>138,989.00</u></b> | <b><u>157,246.00</u></b> | <b><u>178,742.84</u></b> | <b><u>203,402.03</u></b> |
| Foreign Development Project               | 9,283.00                 | 10,211.30                | 11,232.43                | 12,355.67                |
| <b><u>Provincial and District ADP</u></b> | <b><u>60,000.00</u></b>  | <b><u>64,626.98</u></b>  | <b><u>69,183.17</u></b>  | <b><u>74,187.64</u></b>  |

SUPPORTED BY:

