

Does Governance Constitute to Pro-Poor Growth?: Evidence from Pakistan

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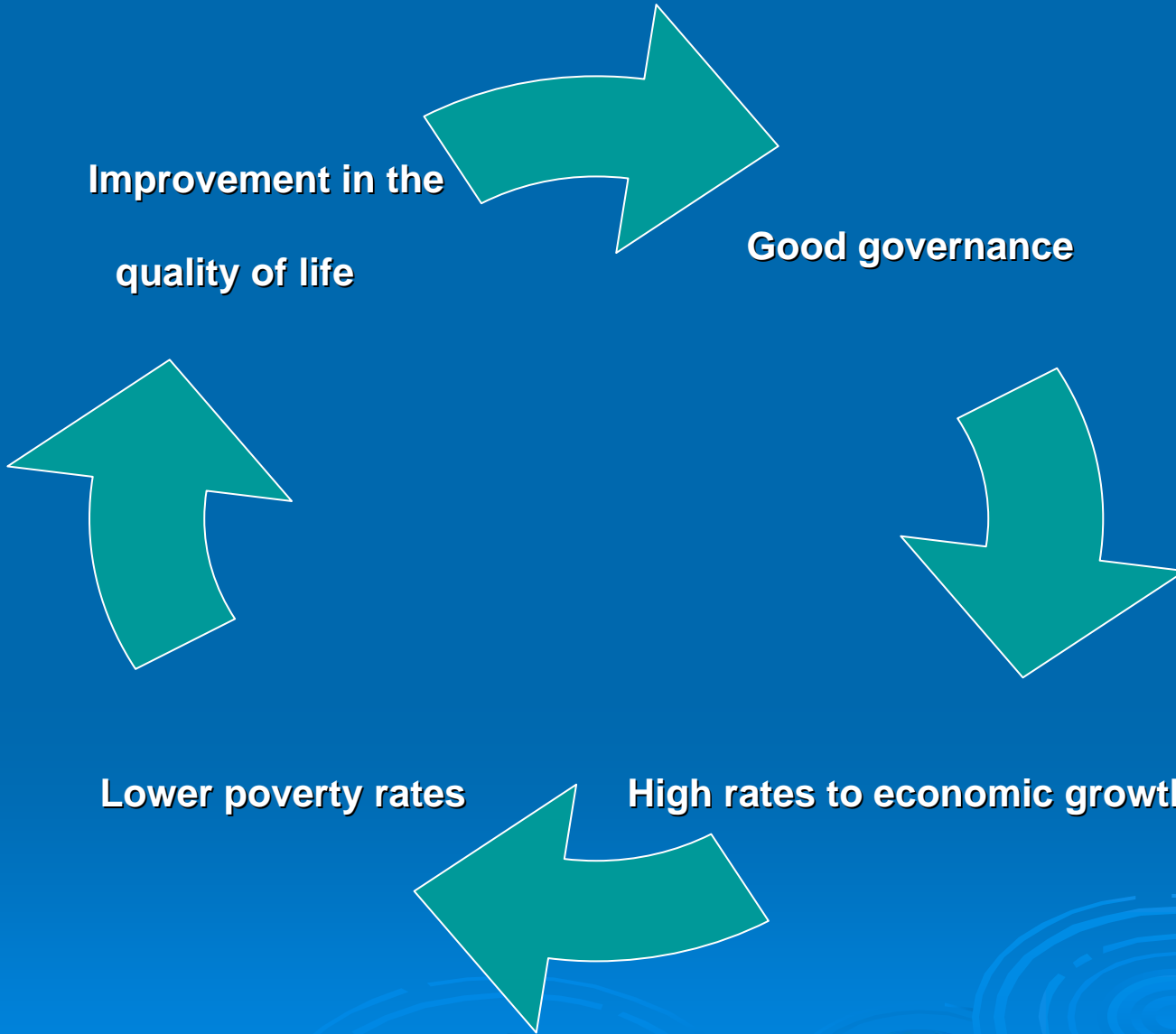
Introduction

Improvement in the
quality of life

Good governance

Lower poverty rates

High rates to economic growth



Continue...

- **Different episodes of growth have different impacts on poverty even in the same country**
- **Institute economic reforms that results in economic growth**
- **Associated with substantial gains to the poor**

“Referred as pro poor growth”



Objective of the Study

- **Review of Literature**
- **Defining Governance Indicators**
- **Concept of Pro poor Growth**
- **Trends of Governance Indicators and Dimensions of pro poor growth in Pakistan**
- **Empirically test the linkages between governance indicators and poverty and inequality.**
- **Conclusions**

Review of Literature

- Ahmed (2001) argued that governance appears to be a significant problem in South Asia with associated adverse implication for poverty reduction .
- Kaufmann and Aart (2002) suggested that per capita income and the quality of governance are strongly positively correlated across countries.
- Chatterjee (2006) concluded that weak political institutions and the skewed distribution of economic resources as well as political capital had resulted in relatively more *de facto* political power in the hands of a few, which in turn is, hindering the process of pro poor growth.
- Dollar and Kraay (2000) concluded that greater rule of law may be associated with a greater share of growth accruing to the lowest 20 percent of the population.
- Christiansen. *et al* (2003) found that poverty headcount decreased in countries that also experienced an improvement in their macroeconomic policy scores.

Defining Governance Indicators

Governance is the process of decision making and the process by which decisions are implemented.

ADB (1995)

- 1. Accountability**
- 2. participation,**
- 3. Predictability**
- 4. transparency.**

➤ UNDP(1997)

Exercise of economic, political and administrative authority to manage a country's affairs at all levels.

➤ **International Country Risk Guide (ICRG):**

- 1. Political risk,**
- 2. Financial risk and**
- 3. Economic risk.**

➤ **World Bank**

**Six composite dimensions of governance
perception indicators**

Point estimates range from -2.5 to 2.5.

Higher values correspond to better outcome

Governance Indicators

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graph TD; GI[Governance Indicators] --- PI[Political Indicators]; GI --- EI[Economic Indicators]; GI --- ID[Institutions Dimensions]; PI --- PI1[i) Voice & Accountability]; PI --- PI2[ii) Political stability]; EI --- EI1[i) Govt Effectiveness]; EI --- EI2[ii) Regulatory Quality]; ID --- ID1[i) Rule of Law]; ID --- ID2[ii) Control of Corruption];
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Political Indicators
i) Voice & Accountability
ii) Political stability

Economic Indicators
i) Govt Effectiveness
ii) Regulatory Quality

Institutions Dimensions
i) Rule of Law
ii) Control of Corruption

Performance of Governance indicators in Pakistan: 1996 to 2005

Indicators	Average Score(%)
Voice & Accountability	26.7
Political stability	21.6
Government effectiveness	39.0
Regulatory quality	36.5
Rule of Law	35.4
Control of corruption	31.5

Percentile ranked Worldwide Governance indicators for Pakistan: 1996 to 2005

Indicators	Ranked (%)
Voice & Accountability	16
Political stability	10
Government effectiveness	33
Regulatory quality	24
Rule of Law	27
Control of corruption	17

Pro Poor Growth

- Growth that is good for the poor; a reduction in the proportion of poor in the population.
- Growth that results in an increase in the income of the poor.
- Growth that is associated with larger proportionate increases in income of the poor than the rest of the population.
- Growth that takes into account both reduction in poverty as well as improvement in inequality.

Dimensions of Pro Poor Growth in Pakistan

➤ Poverty , Inequality and Growth

Growth in Expenditure (2001-02 to 2004-05)

- | | |
|---------------|--------|
| ➤ Poorest 20% | 9.26% |
| ➤ Richest 20% | 21.96% |
| ➤ Average | 16.63% |

Growth in Expenditure by Commodity Groups (2001-02 to 2004-05)

Commodity Groups	Poorest 20%	Richest 20%
Food	11.6	19.0
Fuel and Lighting	5.7	20.0
Clothing	-2.2	8.4
Housing	9.3	16.8
Health	14.6	-6.1
Education	-13.7	11.9
Miscellaneous	15.4	54.4

Share of Income by Quintile

Quintile	2001-02	2004-05
Poorest 20%	6.3	6.2
Richest 20%	49.6	50.4
Ratio of H/L	7.9	8.1

Dimensions of Pro Poor Growth

Years	Poverty (%)	Inequality	Growth (income share of 20% poor)
1993-94	22.4	0.386	6.6
1996-97	31.0	0.359	7.1
1998-99	32.6	0.418	6.6
2001-02	34.5	0.419	6.3
2004-05	29.3	0.42	6.2

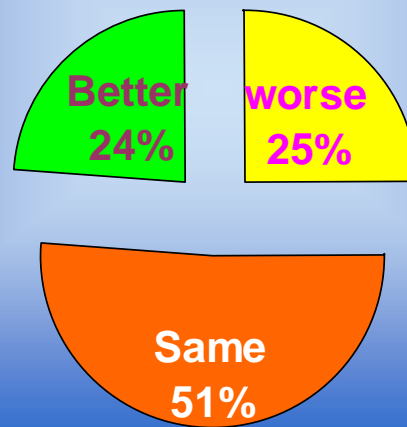
Inflation in Pakistan

Years	Food Inflation	Inflation for lowest income group	Inflation for highest income group
2000-01	3.6	4.5	4.7
2001-02	2.5	3.0	3.6
2001-02	2.9	2.9	3.1
2003-04	6.0	5.3	4.3
2004-05	12.5	10.2	8.9

Households Perception of Economic Situation as Compared to Previous Year: 2004-05

Economic Situation	Pakistan (%)	Urban (%)	Rural (%)
Much worse	4.1	3.59	4.49
Worse	19.82	18.73	20.66
Same	51.51	50.51	52.27
Better	21.95	23.97	20.42
Much better	2.20	2.7	1.81
Don't know	0.41	0.49	0.36

**Household Economic Perception
As Compared to Previous
Year:2004-05**



Governance, Social Sector and Poverty Related Expenditure.

Sectors	% Share (2001-02)	% Share (2004-05)	Growth (%)
Community Services	6.6	13.8	109.1
Human Development	54.2	49.2	-9.2
Rural Development	14.5	18.8	29.6
Safety Nets	4.9	2.7	- 44.8
Governance	20.0	15.9	-20.5
Total (Rs. Billion)	167.25	316.24	89.2

Linkages between Governance and Poverty

Indicators	T Statistic
Voice & Accountability	-1.581***
Political stability	-2.28**
Government effectiveness	0.228
Regulatory quality	-2.41**
Rule of Law	-2.19**
Control of corruption	-0.099

Linkages between Governance and Inequality

Indicators	T Statistic
Voice & Accountability	-1.86***
Political stability	-1.84***
Government effectiveness	0.324
Regulatory quality	-3.18*
Rule of Law	-1.86***
Control of corruption	-0.103

Conclusions

- **Low scores of Governance Indicators**
- **Ranked at the lowest percentile as compared to other countries.**
- **Poor does not benefit proportionately from economic growth.**
- **Households Perception of Economic Situation as Compared to Previous Year is not encouraging.**
- **Linkages between governance and pro poor growth suggest a negative and significant relationship which leads to reduction in poverty and inequality.**
- **Greater voice and accountability, political stability, regulatory quality and rule of law can control corruption and achieve pro poor policies which, ultimately, will reduce poverty and inequality in the long run.**

Thank You

