

Major issue of Poverty in Pakistan

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Abstract:

According to World Bank Report 2013, 60% population of Pakistan lives under poverty line which cannot earn 2\$ a day, and the population which earn 1.25\$ a day is 21%. So there are multiple others reasons of poverty in Pakistan also. Millennium Development Goals (MDGS) are not implemented in true spirit. Because the calories base reduction in poverty is not solution to overcome the poverty for development. Government should invest the skill labor force development and techniques of production will improve it can reduce the poverty line. Good Governance is one of best solution of the problem. Empower the local government system which is very play effective role in poverty reduction.

Key words: poverty, low income, lack of resources

Introduction:

Poverty is global issue and phenomena. According to International labor organization “poverty is situation in which persons or households having lack of resources and necessary to be able to consume a certain minimum beackets of goods”.

In 1990 World Bank Report define the poverty in different dimension, poverty does not mean only low income, its mean capabilities such as education, health and nutrition.

“Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to, not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation”

(UN Statement, June 1998 – signed by the heads of all UN agencies.

The World Bank also offers another comprehensive definition of poverty. According to the World Bank (2000),

“Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one’s life.”

Poverty is surely connected to low salary, absence of education and health. In any case, there is a developing accentuation on considering poverty as an immediate result of poor policies and not well composed development projects, for example, those counteracting economical access to social

administrations or control over beneficial resources (e.g. land and budgetary assets) and those hampering political strengthening.

In 2000, 189 countries leaders met at United Nation in New York with great courage to develop the world more prosperous and equitable. The declaration has signed eight goals which are called Millennium Development Goals and target to reach at 2015. The objective was to make the nation safer, prosperous and equitable. (Power, 2011)

The first goal was to eradicate extreme poverty and hunger. The population which was earns \$1 a day or less then. For the achievement of the goal need to provide employment to young people and women, reduce the proportion of people which are suffering to hunger through poverty.

That time World Bank define poverty, "the person who earn 1.25\$ a day is called poor". The Finance Minister of Pakistan said, 54% population is living under the poverty line. The World Bank estimation in 2011, 40% out of 107 developing countries are under the effect of poverty. Our country is under the ranked among the 43 countries most exposed to poverty risk, which mean poverty risk is high. Due to many reasons 20% increase in food prices will results 8% of poverty as whole in Pakistan. Poverty is phenomena which can change time to time. Pakistan is one of developing country which has faced extreme poverty where a many people died due to hunger. (Anwar, 2002)

Many of reasons behind the poverty which are Afghan refugees, lack of training in income generation and poor governance. The researcher highlight the other reasons behind the poverty are unequal distribution of resources, corruption, landless in rural areas, unemployment, trade deficit, poor state of education, inflation, tax evasion, managerial inefficiency and under develop industrial sector

Literature Review:

Poverty is global issue and phenomena. According to International labor organization "poverty is situation in which persons or households having lack of resources and necessary to be able to consume a certain minimum beackets of goods". The Becket means food, shelter and clothing or food alone. Lack of food is extreme poverty and hunger. Poverty is phenomena which can change time to time. Pakistan is one of developing country which has faced extreme poverty where a many people died due to hunger.

Many of reasons behind the poverty which are Afghan refugees, lack of training in income generation and poor governance. The researcher highlight the other reasons behind the poverty are unequal distribution of resources, corruption, landless in rural areas, unemployment, trade deficit, poor state of education, inflation, tax evasion, managerial inefficiency and under develop industrial sector. The study suggests the policies should be make on economic growth which is strongly related to poverty. This study is examining that factors which are directly and indirectly affected by poverty. Unemployment, societal crime, health, education, per capita income and economy downfall is directly and the sector like infrastructure, industry and agriculture is indirectly affected the poverty. The study concluded that infection of poverty is affecting Pakistan politically, socially and economically (Tariq, 2014).

According to Asian Development Bank, in 1993- 99, 12 million people were added in poverty line in Pakistan. The cause of rising poverty is poor governance and slow economic growth. Slow Economic growth was hurdle in development for government. Asian development bank, main strategy to poverty reduction is to provide opportunities of human development, health facilities and basic education to all public. According to this, the main causes of poverty in Pakistan are poor governance and political

instability, non transparency in resource allocation, weak public sector capacity, inadequate access to justice, and lack of investment, unemployment and inflation (Asian Development Report,2002).

This paper is examined the critical issue of fuel and food prices, and price shock are the harmful segment of the society. The focus of the discussion is impact of higher fuel and food prices on poverty. The impact of food prices is higher as compare to energy prices in context to Pakistan. (Thompson, 2008). Gilani and Rehman, investigated to find the relationship between the unemployment, poverty and inflation with the crime. The study is covering the time series data analysis through Granger causality and finds that crime is cause of unemployment, inflation and poverty.

The study is examined the effect of inflation on poverty in developing countries. It is the panel data analysis which is compromises of 115 countries over the period of 1981-2008. The finding of the study is the inflation is positively correlated to the poverty as compare to educational attainment and quality of governance. (Shahidur, 2012). (Ravallion, 1998) in Indian context study impact of higher prices 1959-94. He found that there was high correlation between higher prices and poverty. (Powers, 1995), examined the poverty in USA. After the analyzing data, she found that inflation directly affected the poor.

The study investigated the relationship between economic growth and poverty, with the specific linkage with employment. He covers 13 countries in his studies in two groups. Firstly he examine the micro economics policies and poverty reduction, secondly the linkage between employment and poverty. Growth of employment can decrease the poverty and increase the economic growth. (Rehman, 2005).

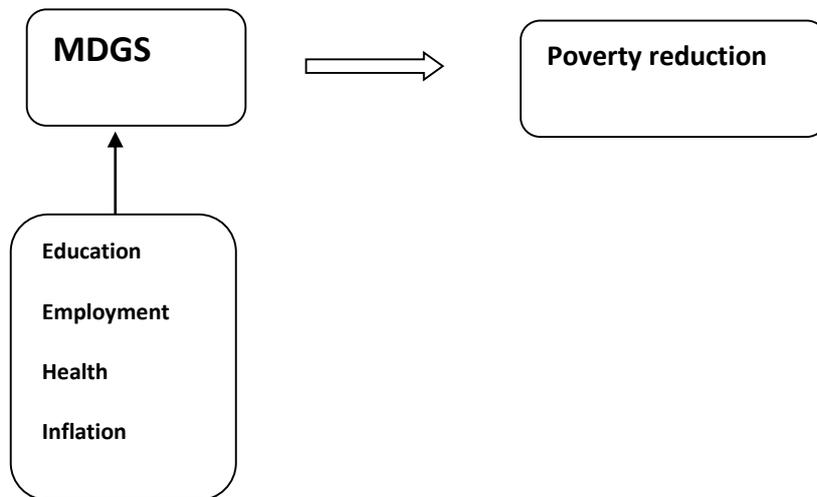
Research Gap:

Millennium development goal is format to make the world more prosperous and safe. Pakistan is also part of this development. The study is investigated the linkage between Millennium Development Goals and Poverty, the one of the main objective of the goals then what is impact on Pakistan which is the gap.

Objective of the study:

- Identify the role of Millennium Development Goals in poverty reduction in context of Pakistan.
- Explore the main factor of poverty in Pakistan
- Recommendation and suggestion for poverty policy in Pakistan

Framework:



Hypothesis:

H0: MDG's has a negative relationship with poverty reduction.

H1: MDG's has positive relationship with poverty reduction in Pakistan.

H2: If we increase employment opportunities then we can reduce the poverty in Pakistan.

Methodology and Data:-

The study used data on annual basis from 1990-2014. Different data sources have been consulted (World Development Indicator and Economic Survey of Pakistan, Pakistan Social and Living Standard Measures) to access the available data. In order to acknowledge the impact of Millennium Development Goals (MDGs) on Poverty a log-log regression model has been used. The Ordinary Least Square (OLS) method has been used for estimating the important regression equation models. The following is the main regression model which will be used for analysis:

$$\text{Log(POVERTY)} = \alpha + \beta_1 \text{Log(PUN)} + \beta_2 \text{Log(EMPFM)} + \beta_3 \text{Log(INFLATION)} + \beta_4 \text{Log(GPPP)} + \beta_5 \text{Log(GEE)} + \text{error term}$$

$$\text{LPOVERTY} = \alpha + \beta_1 \text{LPUN} + \beta_2 \text{LEMPFM} + \beta_3 \text{LINFLATION} + \beta_4 \text{LGPPP} + \beta_5 \text{LGEE} + \mu$$

Dependent variable:

LPOVERTY is the log of poverty head count ratio.

Independent Variables:

1LPUN is Log of Prevalence of Undernourishment (% of Population)

LEMPFM is Log of Employment to population Ratio total (Ages 15-24)

LINFLATION is Log of Inflation

LGPPP is Log of Gross Domestic Product (GDP) per capita Purchasing Power Parity (PPP)

LGEE is Log of Government Expenditure on Education (% of GDP)

The data sources are secondary which includes World Development Indicators and Economic Survey of Pakistan. There exists no transformation of data. All the data collected is in percentage and on annual basis. Government expenditure on education, GDP per capita PPP, prevalence of undernourishment and employment to population ratio are used as Proxy of millennium development goals.

Results and Discussion:-

To estimate OLS model eviews7.1 has been used. Durban Watson, corrleogram and Histogram shows autocorrelation, but Breusch- Godfrey Test (B-G test) with probability value 0.45 that accepts null hypothesis of B-G test which shows that autocorrelation problem is not present(*The Breusch-Godfrey serial correlation LM test is a test for autocorrelation in the errors in a regression model*). White noise test is used for hetrosedasticity, which accepts null hypothesis i.e no hetrosedasticity is present.

ependent Variable: LPOVERTY

Method: Least Squares

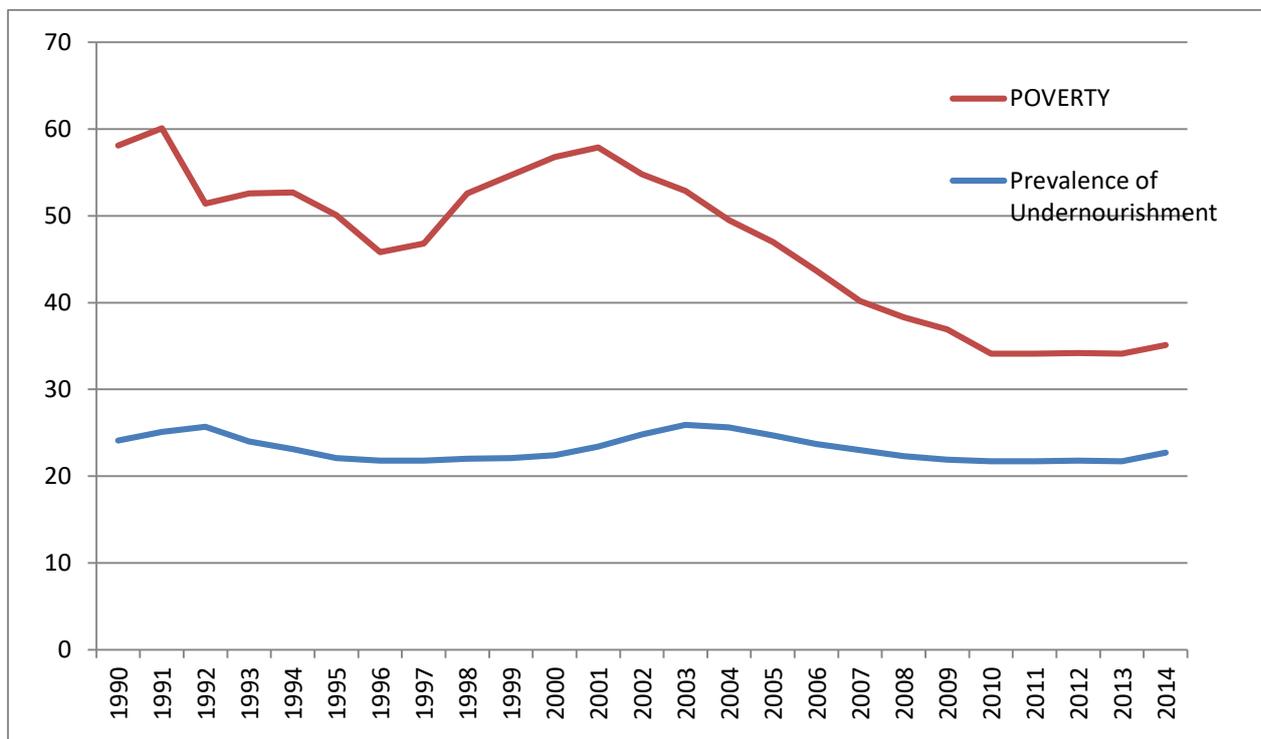
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.68958	2.388390	6.150412	0.0000
LPUN	2.295367	0.459941	4.990569	0.0001
LEMPFM	-5.328049	0.426726	-12.48589	0.0000
LINFLATION	0.140323	0.053001	2.647583	0.0159
LGPPP	0.047720	0.033795	1.412048	0.1741
LGEE	0.372278	0.158418	2.349976	0.0297
R-squared	0.930241	Mean dependent var		3.106724
Adjusted R-squared	0.911883	S.D. dependent var		0.378286
S.E. of regression	0.112292	Akaike info criterion		-1.329857
Sum squared resid	0.239582	Schwarz criterion		-1.037327
Log likelihood	22.62321	Hannan-Quinn criter.		-1.248722
F-statistic	50.67290	Durbin-Watson stat		1.502078
Prob(F-statistic)	0.000000			

The coefficient of determination R^2 is found to be 0.93 and it shows that 90 percent variation in log of poverty is explained by the log of independent variables. Goodness of fit of the model is 91% which means model is good fit. The model is jointly significant as probability value for F-statistics is Zero.

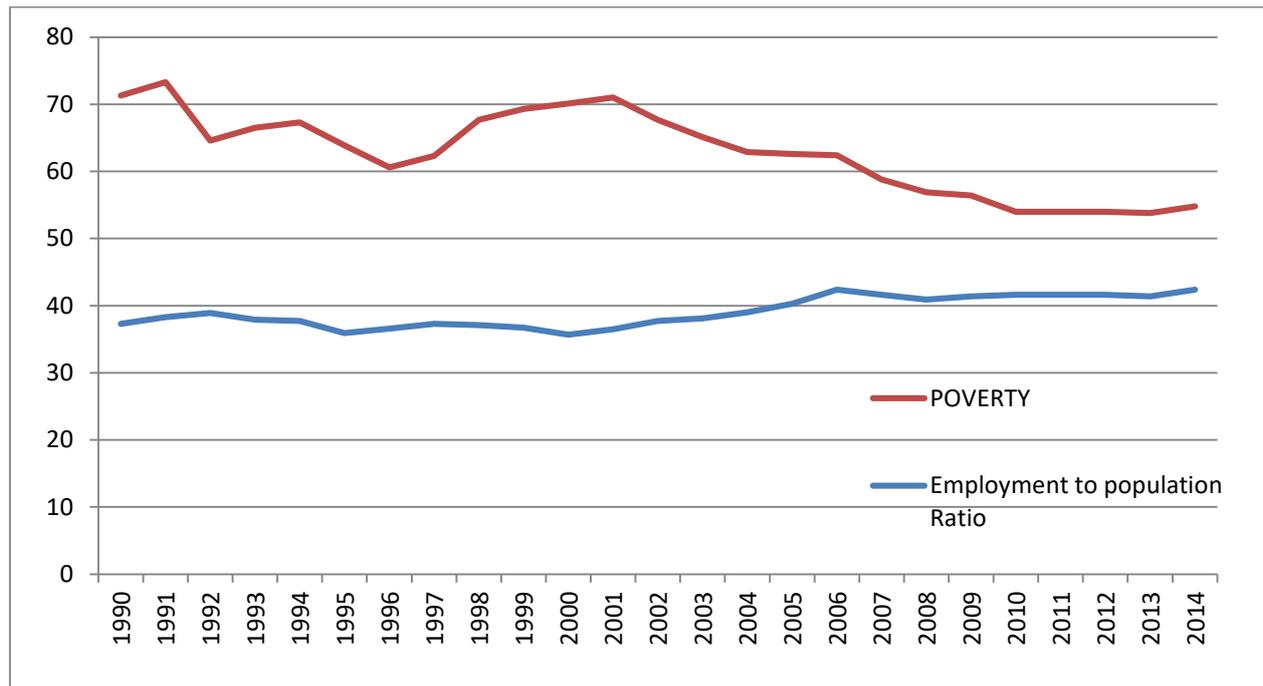
Intercept (α): value shows that the dependent variable, log of Poverty would take value equals to 14.68 when the independent variables will be zero and shows the average effect of all those independent variables which are not incorporated in the model on dependent variable. It has a positive sign and is significant at one percent level of significance.

Slope Coefficients:

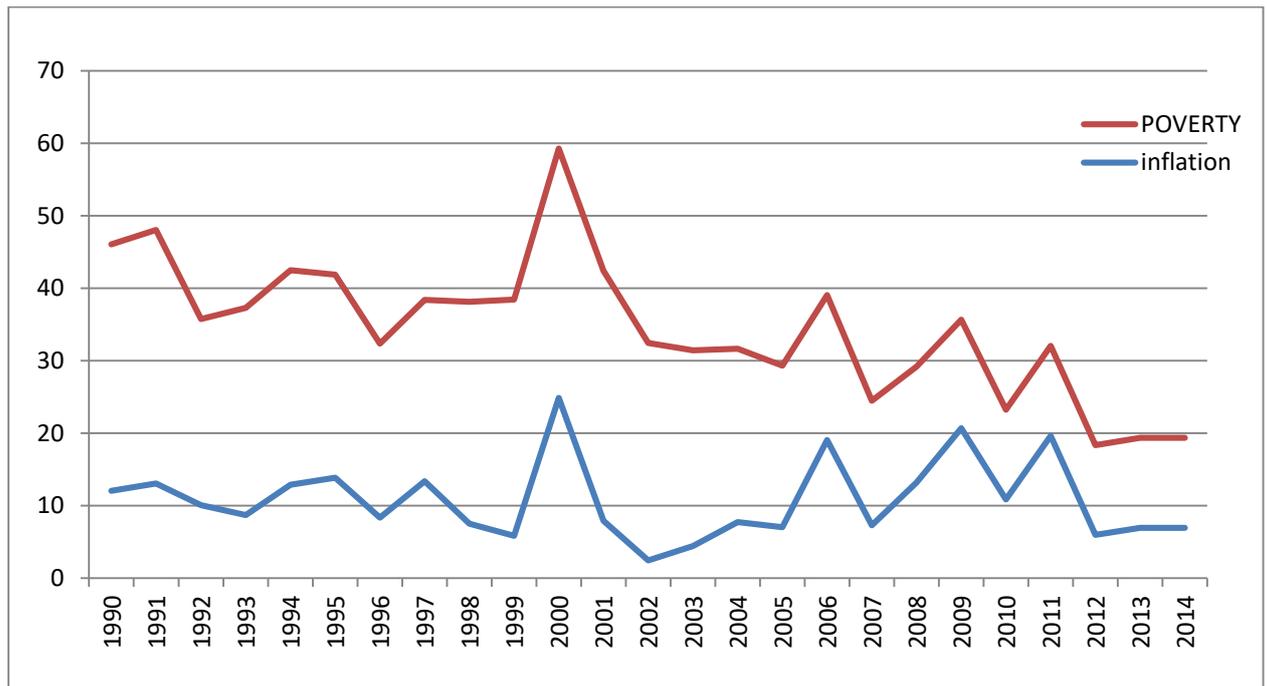
- **Log of Prevalence of Undernourishment (LPUN):** LPUN possesses positive sign and the value of this coefficient shows that one percent increase in log of PUN will bring **2.29** percent increase in the log of Poverty. So, there exists a positive relationship between LPUN and log of Poverty and it is significant at one percent level of significance.



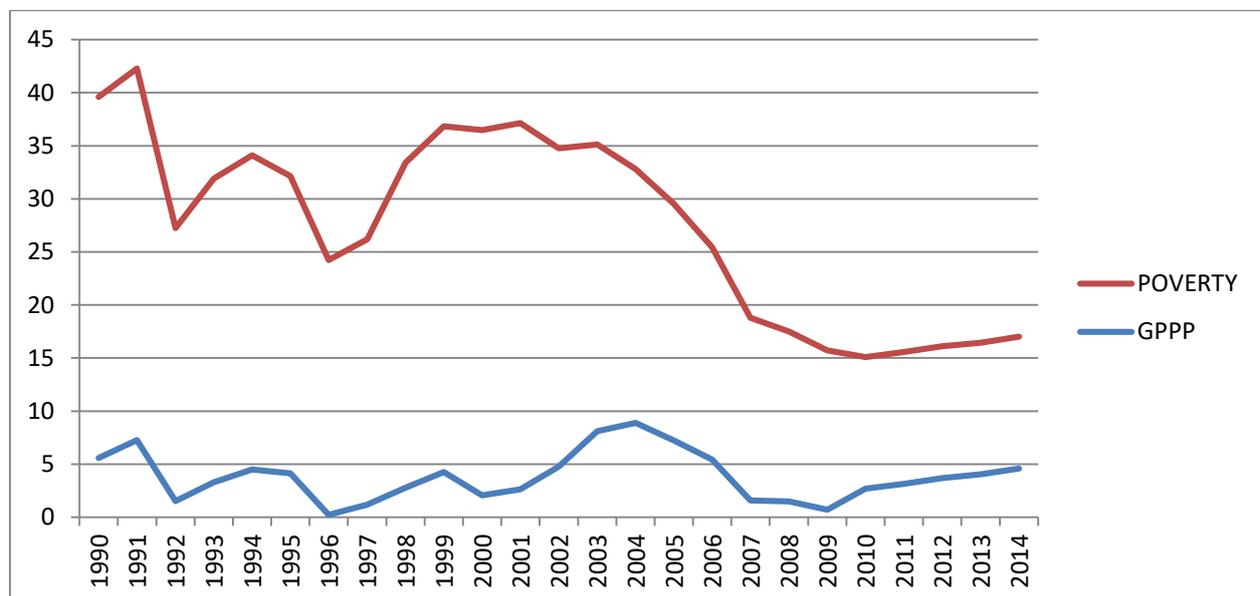
- **Log of Employment to population Ratio total Ages 15-24 (LEMPFM):** Holds a negative sign and is significant at one percent level of significance. The value of the coefficient shows that one percent decrease in **Log of Employment to population Ratio** will bring **5.32 percent** increase in Poverty. This shows that one percent increase in it depicts a negative relationship between employment and poverty.



- Log of Inflation (LINFLATION):** Log of Inflation possesses positive sign and the value of this coefficient shows that one percent increase in log of Inflation will bring **0.14** percent increase in the log of Poverty. So, there exists a positive relationship between LINFLATION and log of Poverty and it is significant at five percent level of significance. According to Wolfgang Fengler (2013), the World Bank’s lead economist in Kenya, *Imagine you are spending half of your income on something whose price suddenly increases by a quarter. Seems impossible? This is how in fact inflation has hit the poor in many developing countries, especially Kenya... So if you are exposed to high inflation, there is no choice but to cut down on food or on other expenses, many of which are vital, such as school fees or health care. This is why inflation is the worst tax on the poor.* (Blog post on Oct 03, 2011, *Taxing the poor through inflation, Africa Can...End Poverty – A World Bank Blog*). Similarly, Fiscal Studies (2011) finds that inflation hits poorer families much harder than the rich in the UK. Similar concerns have been expressed for developing countries as well. O’grady, S. (2011).

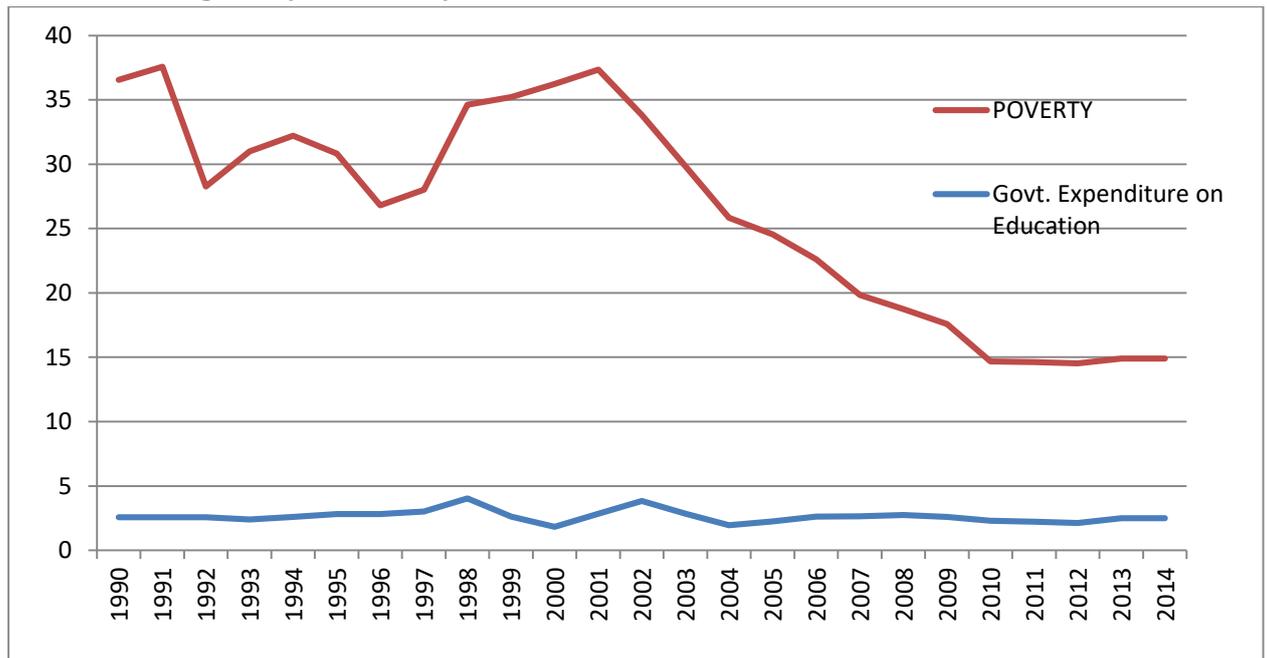


- Log of GDP per capita PPP (LGPPP):** Log of GDP per Capita Purchasing Power Parity possesses positive sign and the value of this coefficient shows that one percent increase in log of Inflation will bring **0.04 percent** increase in the log of Poverty. So, there exists a positive relationship between GDP per capita PPP and of Poverty and it is insignificant but I kept this in my model as it is related with poverty very much.



- Log of Government Expenditure on Education (LGEE):** Log of GEE possesses positive sign and the value of this coefficient shows that one percent increase in log of GEE will bring **0.37 percent** increase in the log of Poverty. So, there exists a positive relationship between government expenditures on education and Poverty. And it is significant at five percent level of significance. The positive relationship between poverty and government expenditure on education is questionable as MDGs focus on increase in education in the country but here it is showing a positive relationship with poverty. It is related with how budget is spending in the

sector either it is spending on primary education or on higher education. In Pakistan a big portion of educational budget goes to higher education which is accessible only a small portion of population while the poor and low income class could not afford to get education or afford studies at the cost of additional family income in form of child labor. Focusing on how much education and health has been channeled to the poor; "expenditure incidence analysis" is part of many World Bank poverty assessments. World Bank research has clearly shown that most education and health subsidies are not well targeted to the poor, though they are progressive and reduce inequality. A relatively large number of studies from low-income countries exists for example, Ghana, Guinea, Kenya, Madagascar, Malawi, South Africa, Nigeria, Côte d'Ivoire, Tanzania and Uganda (Walle, 1995)



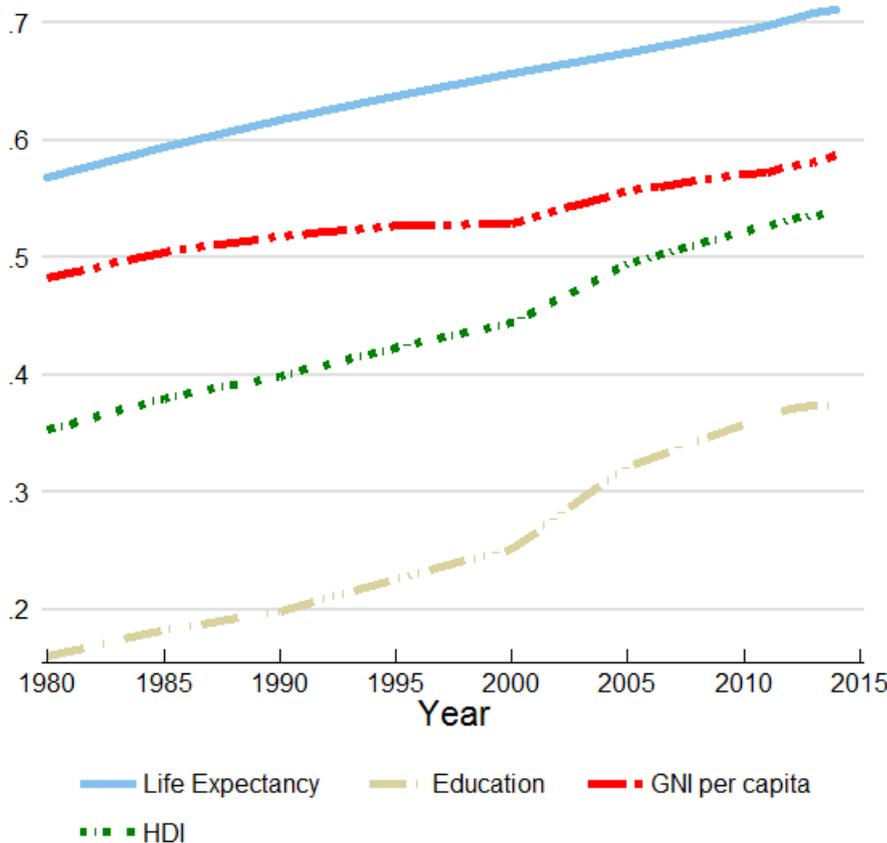
Millennium Development Goals Impact on Poverty Reduction in Pakistan:

Millennium Development 2013 describes the maximum progress towards the achieving goals. The overall progress are not mark able, only 10 indicators are achieve out of 34 indicators. The first aim is to reduce the poverty line by 2015, and ensure full employment for all, have reduced the proportion of people who suffering from hunger. Pakistan set the target to reduce absolute poverty line which 34.5% in 1990's decreases 12.5% in 2010-11. But this is achievement of calories based food poverty in poverty line. Millennium Development Goals (MDGS) indicators for poverty reduction are out of track two out of three indicators.

According to Report.

Indicators	National Value	Target	Status
Goal 1: Eradicate Extreme Poverty and Hunger			
Proportion of population below the calorie based food plus non- food poverty line.	12.4	13	On Track
Prevalence of underweight children under 5 years of age	31.5	<.20	Off Track
Proportion of population below minimum level of dietary energy consumption	30	13	Off Track

Trends in Pakistan’s HDI component indices 1980-2014



Pakistan’s human development Index (HDI) value for 2014 is 0.538— which put the country in the low human development category—positioning it at 147 out of 188 countries and territories. Between 1980 and 2014, Pakistan’s human development Index (HDI) value increased from 0.353 to 0.538, an increase of 52.5 percent or an average annual increase of about 1.25 percent.

Table reviews Pakistan’s progress in each of the human development Index (HDI) indicators. Between 1980 and 2014, Pakistan’s life expectancy at birth increased by 9.2 years, mean years of schooling increased by 2.9 years and expected years of schooling increased by 4.1 years. Pakistan’s Gross national income (GNI) per capita increased by about 99.7 percent between 1980 and 2014.

Conclusion:

Pakistan is facing a serious challenge of poverty which is hurdle in development. The finding and results shows that there is relationship between Millennium Development Goals (MDGs) and poverty in context of Pakistan. Millennium Development Goals (MDGS) impact on poverty reduction is very significant. The research results shows that employment, Inflation, under nourishment, Gross domestic product (GDP) PPP, Government expenditure on education have relation to poverty head outs. The null Hypothesis is rejected. So if we increase the employment of young people and women rate then Pakistan can rapidly reduce the poverty. Inflation, population under nourishment and government expenditure is also important to create poverty in Pakistan.

Recommendation:

Policy measures should be designed to create employment and Gross domestic product (GDP) growth which eradicate the poverty on National level. The others measures to equitable distribution of national income and resources, strike balance in prices of general commodities can decrease the poverty ratio in Pakistan. Government should invest the skill labor force development and techniques of production will improve it can reduce the poverty line. Good Governance is one of best solution of the problem. Empower the local government system which is very play effective role in poverty reduction.

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