

Social Impact of the Security Crisis

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Pakistan must pursue its social development objectives in spite of the on-going security crisis. Failure to do this will further worsen the security situation. Policy makers must recognize that success of an anti-terror strategy crucially depends on the role that poverty alleviation plays in any such strategy. SPDC's analysis of the socio-economic implications of the security crisis reveals a negative impact on investment climate, social indicators, physical and human capital, as well as, fiscal strain and a distortion in use of public resources. Undoubtedly, the situation is alarming but the successful conclusion of the 7th NFC Award has raised hopes that provincial governments will give priority to effective and comprehensive social service delivery.

A Nation's Conundrum

A long standing challenge for policy makers in Pakistan has been the achievement of sustainable socio-economic development in the country. The high growth periods experienced over the past six decades failed to translate into significant and sustainable progress in social development. The task is now further complicated by the on-going security crisis which has crowded out resources from social sectors towards security-related expenditures.

Social sector growth in the past was hampered by the low priority given to development budgets by successive governments. The economic crisis of the 1990s in particular was a major setback to social development. However, a larger allocation for social sectors was anticipated when Pakistan signed the MDGs in 2000. Unfortunately, priority in public spending has increasingly shifted from social sectors towards defense and security since the 9/11 attacks. The result is a slowdown in the pace of social development with grave implications for the future welfare of people.

The Costs of War

There is little doubt Pakistan has borne the brunt of suffering, deaths, and destruction in the changed geopolitical landscape following 9/11. Over 30,000 fatalities have occurred due to terrorism between 2003 and 2010. Meanwhile, ethno-political, sectarian and inter-tribal clashes have further aggravated the internal security situation. The social costs of the conflict also include damage to public and private

infrastructure and assets; displacement of populations; breakup of social cohesion, institutions and norms, as well as, deep-rooted fear and distrust.

These costs increased exponentially in the latter half of 2000s. An econometric analysis undertaken by SPDC reveals security-related expenditures would have been significantly lower in the absence of the war on terror. Both direct security-related expenditures, including compensation to victims, damage to property and infrastructure, and costs of private security and indirect costs such as cost to local economies, fall in private investment and stock market capitalization, and decline in tourism have been high. In addition, the conflict has also had impact on the mental and physical health of people in the affected areas. At least 67 percent of household heads in the affected areas are under psychological stress. The extent of these costs will become more apparent over time. The biggest direct cost, that of the value of lives lost, is excluded.

SPDC estimates show the total direct costs of participation in the war on terror increased by 115 percent between 2007 and 2010, whereas the indirect costs grew by 126 percent over the same period. Enhanced perception of risk and uncertainty due to the on-going conflict has resulted in a sharp and continuous decline in private investment since 2005-06. A negative growth of 3.5 percent in private investment was recorded in 2009-10. Additionally, large macroeconomic imbalances and supply bottlenecks such as power load shedding have further aggravated the situation.

Not surprisingly, the analysis uncovers that Khyber Pakhtunkhwa (KPK) province has suffered the most due to the security crisis.

Highlights of Costs to KPK Economy

3.5 No. in millions of Internally Displaced Persons (IDPs)	130 Billion (rupees) cost to the local economy in 2009-10
4 Percentage decrease in average growth rate of KPK economy since 2004-05	36 Billion (rupees) cost due to un-harvested standing crops and lost livestock
8 Percentage of schools fully or partially damaged in Malakand	1660 No. of industrial units closed down due to conflict
29 Percentage of public health facilities fully or partially damaged	30 Percentage of damaged water supply schemes

With the intensification of military operations from 2005 onwards, costs to the local economy increased in terms of loss of lives and livelihoods as well as provision of normal public services to the people, damage to physical and social infrastructure, including houses, businesses, standing crops, livestock, schools and health facilities, water supply schemes, etc. Altogether, costs to the local economy increased from Rs.40 billion to Rs.130 billion between 2007-08 and 2009-10.

The costs of participation in the war on terror are rising exponentially in terms of dislocation of economic activity, high losses of life and property and impact on the investment climate.

Findings from a household survey conducted by SPDC in selected districts of KPK province indicate higher incidence of poverty due to escalation of the conflict. In addition, deaths and injuries due to armed conflict, increase in youth unemployment, loss in children's education, internal displacement, psychological distress, and loss of household assets are among the other costs of war reported by households in these affected areas.

Fiscal Impact of the Crisis

The total costs of war increased from US\$6 billion in 2007-08 to US\$10 billion in 2009-10. Meanwhile, bilateral military and economic assistance from the

United States to Pakistan has been less than three times the costs of war. Consequently, pressure has mounted on the budgetary priorities of the federal and provincial governments. Analysis of the budgetary trends shows an extraordinary growth in security-related expenditures in the past decade. Expenditures on public order and safety affairs increased from 15 percent to 24 percent between 2001 and 2010. But this growth came at the expense of a decline in development expenditure in the social sector.

The war on terror has shifted expenditure priorities away from the social sectors.

Analysis of the trends in public spending after 9/11 reveals that pro-poor spending increased from 3.6 percent of GDP in 2001-02 to 6.3 percent in 2007-08, but then declined to roughly 6 percent in 2009-10. While this is still above the 4.5 percent level stipulated under the Poverty Reduction Strategy Paper (PRSP), a closer look at the budget documents suggests that public expenditures have been diverted from economic sectors, such as water and power and social sectors namely education, health, and rural development. In contrast, sectors and areas which have linkages with the on-going conflict have received greater allocations.

Pace of Social Development

SPDC estimates show incidence of poverty has increased steadily in the last decade from 34.5 percent in 2000-01 to 38 percent in 2007-08. Poverty is expected to have crossed 40 percent by the end of 2010. Sector-wise appraisal of basic social indicators suggests that Pakistan is unlikely to meet most of the targets of MDGs by the 2015 deadline. Some of the impacts are:

- **Education sector** - Public spending on education declined since 2009. In terms of gender equality, the trend indicates that education of girls has disproportionately borne the burden of war on terror.
- **Health sector** - Public spending on health increased significantly in absolute terms between 2002 and 2009 but remained less than one percent of GDP in relative terms. Priorities in health spending show mother and child health care received less than one

percent of total health spending. The pace of improvement in basic health indicators thus slowed in the latter half of 2000s. Hardly any progress was made in the case of infant mortality.

Higher spending on security during the war on terror has caused a slowdown in the pace of social development. This is a major dichotomy, since one of the causes of the spread of terrorism has been widespread poverty, lack of opportunities and hope for youth, and the poor living conditions throughout the country.

Future Outlook for Social Development

The future outlook for social development has been improved by the 7th National Finance Commission (NFC) Award which will bring about a change in the resource distribution formula between provinces. In percentage terms, provinces stand to gain from the new formula by as little as 37 percent in case of Sindh and as much as 101 percent in case of Balochistan. The Award will thus be a major boost for provinces where the level of development is relatively poor.

The 7th NFC could lead to renewed focus on social development but this will depend on the realization of the optimistic revenue projections.

While prospects for social development have also improved after devolution of key social sector ministries under the 18th Constitutional Amendment, at the same time, there are concerns about both the capacity and priority of the provinces. SPDC estimates based on province wise annual budget statements 2010-11 show that provincial development expenditures do not reflect substantive increase in social sector development.

Recommendations

The state and civil society must adopt a consensus-based strategy that aims both at preventing terrorism and minimizing its effects on social development. An integrated solution is therefore needed to address the present security and development crises.

Government must prioritize social development in fiscal planning. The focus on the security situation has distorted development priorities. This has had a

negative impact on the pace of economic growth and social development. Policy makers must ensure that public spending on defense and security is not enhanced at the cost of expenditures on social sectors.

There is an urgent need to fuse poverty alleviation in anti-terror strategy. A large number of people who are recruited by militant outfits come from the lowest socio-economic strata of society. This suggests that increase in poverty paves the way for extremism and militancy. It is imperative that the national goal of poverty reduction is at the center of any anti-terror strategy which the state chooses to pursue.

Seek effective use of provincial transfers. Social service delivery at the provincial level can be improved after the proposed changes to the resource distribution formula. Provinces need to seize this opportunity and direct the increase in transfers for achieving the MDGs targets. In particular, the more backward provinces who stand to gain the most from the 7th NFC Award should utilize this opportunity to lessen the gap in socio-economic development vis-à-vis other provinces.

Skill development for unemployed youth should be promoted. Most incidents of terrorism have been carried out by young males who, in the absence of alternatives, may be persuaded to seek recruitment in militant groups. The high rate of youth unemployment is therefore alarming. There is an urgent need to initiate skill development programs for the unemployed youth, especially men, in both urban and rural areas. These programs need to be designed in line with labour requirements of local economies.

Seek to improve state - society cooperation. The internal dynamics of militancy, extremism, and terrorism demands a comprehensive strategy whereby, the state and society combine their efforts to address the different forms and manifestations of extremism and terrorism.

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Social Policy and Development Centre (SPDC) provides decision makers in the government, private sector and civil society organizations with a multi-disciplinary approach towards issues of development and growth. A non-profit, policy research centre established in April 1995 as a limited company based in Karachi, SPDC has made significant intellectual contribution in placing issues of pro-poor growth and social development on Pakistan's policy-making agenda.

Being an independent and non-partisan research organization, SPDC collaborates and cooperates with organizations working on issues relevant to its mandate both at home and abroad. It determines its own agenda and has successfully maintained its independence and a balance between responsive and proactive social sector research. The main areas identified for research by SPDC are: poverty, inequality, governance, public finance and macroeconomic policy issues, social sector policies and gender issues. Having established its credibility, SPDC is considered as one of the outstanding research policy institutions of Pakistan focusing on public policy analyses and social sector development.

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